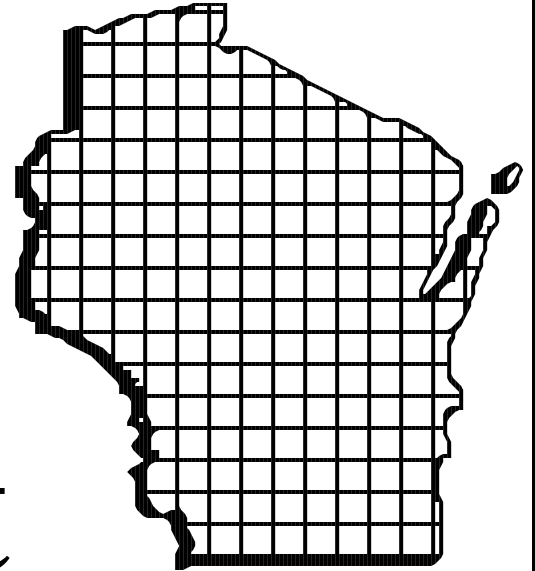


Wisconsin

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Institute
Report



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**PRIVATIZING
WELFARE IN
WISCONSIN**

*Ending
Administrative
Entitlements —
W-2's Untold Story*

REPORT FROM THE PRESIDENT:

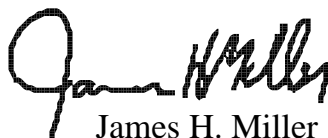
No change in public policy has been more important in Wisconsin than the ending of the old welfare system. The new Wisconsin Works (W-2) program has become a showpiece across the country. The idea of ending entitlements has been almost universally received. Few liberals defend the old system. Today, poor people who need help are expected to show individual responsibility. However, what has not been publicized is that a similar change has taken place within the bureaucracy that has controlled the state's welfare system for the last generation.

We asked David Dodenhoff, Ph.D., a visiting fellow at the Institute, to examine the management changes that have taken place as part of the implementation of W-2. Dodenhoff has a doctorate from the University of Michigan, with a specialty in welfare reform. His research is based on a combination of data-gathering and personal interviews with the people who restructured the administrative system in Wisconsin. His research is very important to understanding the profound changes that have occurred in the state's welfare system.

Wisconsin has moved in a parallel direction not only to change the culture of the recipients of welfare, but also of those who administer it. The state introduced the concept of performance contracting into the public assistance system first by requiring counties to earn the right to administer W-2, and then by linking W-2 agency compensation to job-placement performance. Under W-2, it also allowed private companies — both for-profit and not-for-profit — to become involved in the management of these new programs. It can't be emphasized too strongly how important these decisions were.

If you expect poor people after generations of entitlements to change their behavior, you must also make the administrators accountable to standards in the same way as the recipients. If there are no entitlements for the recipients, there should be no entitlements for the bureaucrats. If recipients who don't show individual responsibility can be dropped from the rolls, so should bureaucrats who do not perform at a high standard.

Another important result from Dr. Dodenhoff's research is that it shows cost savings from and no public employee layoffs because of privatization. It is certainly a positive sign that by restructuring Wisconsin's welfare system, we have been able to produce better management at a lower cost to taxpayers in the state.



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PRIVATIZING WELFARE IN WISCONSIN

Ending Administrative Entitlements — W-2's Untold Story

DAVID DODENHOFF, PH.D.

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SUMMARY

The Wisconsin Works (W-2) program has garnered substantial attention for revolutionizing expectations about the obligations of public assistance recipients. Less noted, however, has been the radical overhaul of the administrative structure of public assistance under W-2. If W-2 has begun to ask more of poor families than public assistance programs ever have before, it also asks far more of the entities that administer programs for the poor.

Under W-2's predecessor program, Aid to Families with Dependent Children (AFDC), private entities were prohibited from determining eligibility or performing case management functions. In practice, county workers had a monopoly on the delivery of program benefits. Furthermore, state contracts with the counties for administering AFDC were organized on a cost-reimbursement basis. That is, as long as the counties were spending money on allowable activities — benefit payments, case management services, administrative costs — the state was required by law to reimburse county expenditures. The payment structure was the same under AFDC's work and training program, Job Opportunities and Basic Skills (JOBS). For most of the history of the JOBS program, providers were paid for offering services, whether or not those services moved a single individual from welfare to work.

This system began to change in 1994, when the state instituted performance contracting for JOBS providers in Milwaukee, and in 1995, when performance contracting was expanded to the rest of the state. Under the new regime, the state placed ever-increasing shares of each JOBS contractor's payments in a "performance pool" that could only be earned by placing AFDC clients in a job. Through maximum job-placement performance, JOBS contractors could earn substantially more than their normal compensation. Poor performance, however, resulted in a significant pay cut. In 1994, this system contributed to a 30% increase in job placements among AFDC recipients in Milwaukee, and helped drive down caseloads statewide in subsequent years.

The success of this experiment proved a major influence on the "99 Group," the planning group responsible for drafting the W-2 program. Drawing on the state's experience with JOBS performance contracting, the 99 Group proposed paying W-2 vendors a flat fee for administering the program. Vendors then would be allowed to keep the first seven percent of any cost savings they could achieve on that fee, and 10% of any savings beyond the initial seven percent. For the first time in the state's history, this system gave public assistance administrators a financial stake in the outcomes they were producing. The more quickly they moved W-2 participants into unsubsidized, private-sector jobs, the more money vendors would earn. This sort of arrangement, 99 Group members believed, would focus vendors on outcomes — namely, employment for program participants — rather than mandated inputs and procedures, as under the old system.

The 99 Group also proposed breaking the counties' monopoly on program administration by opening the system to competitive bidding and, therefore, potential privatization. An important inspiration for this idea was the success of the state's JOBS program, which had been operated in large part by private vendors. 99 Group members wanted to achieve some of the benefits of privatization under W-2 that the JOBS program had enjoyed. They also wanted to let the counties out of public assistance administration that wanted out, and to replace them with capable, motivated vendors. Finally, the 99 Group hoped to spur performance by putting contractors on notice that if they did not perform to expectations, they could be replaced. None of this had been possible under the old system, which granted the counties an administrative monopoly.

An outcry from public employees over potential job loss ultimately resulted in less than complete competitive bidding. Counties were given the chance to earn the "right of first selection" — that is, to become the W-2 agent without facing competition — if they met caseload reduction, job placement, and AFDC expenditure targets between September of 1995 and August of 1996. Of the state's 72 counties, 67 ultimately earned the right of first selection, though a handful chose not to exercise it. This left 11 of the state's counties open for competitive bidding. Private vendors ended up winning the bidding process in nine of the 11 counties, and at the start of W-2 were handling about 70% of the W-2 caseload.

Milwaukee County was one of only five counties that did not earn the right of first selection. Milwaukee, however, also failed to bid to become a W-2 agent. Though there was some sentiment among county officials, especially the County Executive, that the county ought to be a W-2 agent, the state appears to have discouraged the county from

bidding. The state apparently did not want the county to be an agent both because of its poor record in administering AFDC and because of a potential conflict of interest; the county would be overseeing W-2 through the Private Industry Council and could not also, therefore, be an administrative agent. Milwaukee County nonetheless has retained an important if indirect role in W-2. County workers continue to determine eligibility and perform case management for child care, Food Stamps, and Medicaid. The county also helps oversee W-2 through the Private Industry Council and is responsible for producing 2,000 community service jobs for W-2 participants.

Despite concerns from critics, not a single public employee has lost a job as a result of W-2's partial privatization. Though some counties in which W-2 is privately administered have eliminated positions, those workers have transferred to other county jobs, have gone to work for a private vendor, or simply have retired. In keeping with the arguments of competition advocates, the state is saving at least \$10.25 million over the first two years of W-2 as a result of the participation of private vendors. This amount is the difference between what the state is paying private W-2 vendors and what it would have had to pay the counties had they earned and exercised the right of first selection. The private agencies also appear to have advantages over the counties in providing services under W-2. Not having to deal with union contracts and civil-service rules, private vendors can provide incentive pay, hire and fire as they see fit, define and redefine staff duties as necessary, and ask employees to work off-hours, "in the field," and so on. Lacking a multi-layer bureaucracy and government regulations, private vendors can move quickly to make purchases, start new programs, hire additional staff, and change policy. Speed and flexibility of this sort are critical in a program that relies on provider innovation rather than a fixed set of inputs, and that involves constant learning. At the same time, the private providers seem to have a genuine commitment to client service, demonstrated by a long history of involvement in welfare-to-work programs and by services they are not required to offer but do, though they cut directly into profits.

I. INTRODUCTION

In the spring of 1997, Leticia Green's life took a turn for the worse. Though she had a job and her own apartment, she found her work as a cashier tedious, and she dreaded tending to one customer after another all day long. By her own admission, Leticia's mind often would wander at work, and she deliberately would defy company rules so that her supervisor would have no choice but to send her home. When she was sent home on April 30, 1997, she was asked not to come back.

She received a final paycheck after being fired, and so was able to pay her rent for May. Through begging, pleading, and promises, she managed to keep her apartment for a couple of months after that. But by the end of July, she had not yet found another job, nor had her Aid to Families with Dependent Children (AFDC) checks begun arriving, though she had applied to receive aid. Understandably, her landlord asked her and her 18-month-old daughter to move on.

She moved out of her apartment and moved in with her sister in early August, but that arrangement lasted only two-and-a-half weeks. She and her sister had a fight over "a boy," a fight so violent that the police had to intervene. After that, she was no longer welcome in her sister's home.

Though she may not have known it, Leticia Green was part of a revolution in the administration of public assistance.

In mid-August, Leticia and her daughter moved into the apartment of some family friends — "the crazy people," she called them. She was grateful for a place to stay, but she was unhappy about the open drug use, the hordes of children that violated her and her daughter's privacy, and the sexual advances of one of the older men living in the apartment. In early November, within the span of just a few days, the older man was arrested, several of the children broke into Leticia's room and ransacked it, and one of the younger men who frequented the apartment threatened Leticia with violence. She knew it was time to move again.

When she moved this time, the only place she could find was a homeless shelter near downtown Milwaukee. Because she needed public assistance but had changed addresses, she was required to establish a relationship with a new Wisconsin Works, or W-2, agency. The agency for her region was located at 1304 South 70th Street. Hoping to get her life back on track, she set up an appointment to speak with a Financial and Employment Planner there. But when she arrived, something happened that had not happened in the more than 60 years that the State of Wisconsin had administered programs for poor mothers and their children. She sat down and spoke with an employee of a private, for-profit company serving as the W-2 agent in her area.

Though she may not have known it, Leticia Green was part of a revolution in the administration of public assistance.

That revolution consists in large part of competitive bidding — open to public and private entities, governmental, for-profit, and not-for-profit — for the right to administer W-2 in each county and in the six administrative units that comprise Milwaukee County. Until the Temporary Assistance for Needy Families program (TANF) replaced AFDC last year, that sort of arrangement had been prohibited by federal law. Only governmental entities could administer AFDC. But under the language of the 1996 federal legislation that created TANF, which in turn provided Wisconsin with much of the money needed to run W-2, states were allowed to contract with "charitable, religious, or private organizations" for the administration of their individual TANF programs.

Wisconsin took advantage of this option, and now roughly 70% of the state's W-2 caseload is being handled by private entities, both for-profit and not-for-profit.¹ Though this is a radical departure from past practice, it has gotten very little attention in the press coverage of W-2. One likely reason for this is that the rest of the changes brought about by W-2 — the work requirements and time limits — are easily communicated in human terms that make good copy. The same is generally not true of changes in administrative structure, though they are no less important.

Another reason the privatization story may have been underplayed is that in most counties, administration continues

under W-2 in a form largely unchanged from the days of AFDC. That is, in 63 of the state's 72 counties, the county social services department acts as the W-2 agent, just as it was the AFDC administrator under the old system.

But things are hardly the same even in these 63 counties. Another important administrative change the state has made is a shift from contracting on a cost-reimbursement basis to contracting on a performance basis. Under the old system, counties were reimbursed dollar-for-dollar for benefits paid out under the AFDC program and services rendered under AFDC's employment program, known as Job Opportunities and Basic Skills, or JOBS. The counties accrued expenses by paying benefits to their AFDC clients and offering them JOBS services, and then submitted the bill to the state. The state was committed by law to reimbursing those expenses, no matter what kind of results the county was producing in terms of reducing dependency and moving recipients into employment.

Things don't work that way any more. The state now pays the counties and the private W-2 agencies a flat fee for administering W-2. If they end up spending more than that amount, they have to come up with the difference themselves. If they end up spending less, they are entitled to keep a fixed percentage of the surplus. Thus, the contract is now structured to reward maximum performance. This is another key element in the administrative revolution brought about by Wisconsin Works.

The state now pays the counties and the private W-2 agencies a flat fee for administering W-2.

This report considers that revolution in more detail. It begins with a description of the administrative structure of the old AFDC/JOBS system, and some changes in that structure the state introduced several years ago in an effort to make it more performance-oriented. It then explores the intellectual origins of the new administrative structure under

W-2, drawing on interviews with members of the "99 Group," the planning group that designed W-2. Here, group members discuss the thinking behind the shift to competitive bidding and performance contracting, and what they hoped these changes would accomplish. The report turns next to the "right of first selection" that allowed some counties to become W-2 agents not through competition, but by meeting stringent performance criteria instead. It also explains the surprising decision by Milwaukee County not to bid to be a W-2 agent, and offers a brief description of the private entities that bid and were successful in Milwaukee and in eight other counties. Finally, the report considers the issue of whether or not privatization and performance contracting matter, that is, whether they are producing desirable or undesirable outcomes, or both. Here, it addresses the issues of public employee job loss, quality of service, cost savings, and administrative flexibility and efficiency.

II. THE ADMINISTRATIVE STRUCTURE OF THE AFDC AND JOBS PROGRAMS²

The Aid to Dependent Children program, later renamed Aid to Families with Dependent Children, was created as part of the Social Security Act in 1935. Until 1997, it was the primary federal program providing cash assistance to single parents (typically, mothers) and their dependent children. Many AFDC recipients were required to participate in a companion program known as JOBS, for Job Opportunities and Basic Skills. The JOBS program was created as part of the 1988 Family Support Act. JOBS was designed to help move welfare recipients into work through a combination of education, training, and job-search and -placement services.

Both AFDC and JOBS were jointly administered by the federal and state governments. AFDC was funded in part with federal funds and in part with state funds. The federal government paid for at least half of each state's spending on AFDC benefits, and paid exactly half of all states' administrative expenses.

Though states were not required to participate in the AFDC program, all of them did. As a condition of receiving federal funds for AFDC, states had to have their AFDC programs approved by the federal government and had to adhere to certain federal requirements. States, for example, had to operate their AFDC programs statewide, had to apply eligibility standards uniformly across the state, and had to apply federally mandated income and resource limits in determining eligibility. Also, states were required to administer their programs through governmental entities. Non-public employees simply were not allowed to determine eligibility and handle case management for AFDC applicants and recipients.

Although states had to adhere to these and myriad other federal requirements, they also were given some leeway in

designing their AFDC programs. The states, for example, defined their own income eligibility thresholds (within federal limits), set their own benefit levels, determined the manner and time of benefit payment, and so on. State employees did not, however, run the program on a day-to-day basis — at least not in Wisconsin. That was left to employees in the various county social service departments, which contracted with the state to run AFDC. County employees handled intake for new AFDC applicants, determined eligibility, enrolled eligible applicants in AFDC, referred them to the JOBS program when required, applied sanctions when program participants failed to participate in required JOBS activities, and closed cases when a client's eligibility ended. And again, county governments did not handle these tasks merely because they had the staff and administrative infrastructure to do so. They did so because federal law required that public employees, not employees of private-sector entities, administer AFDC.

Administration of the JOBS program was similar to AFDC in a number of respects. The federal government paid most of the cost for state JOBS programs, based on a fairly complex formula involving each state's spending on employment and training activities for welfare recipients, the size of its AFDC population, and the amount of money the state received from the federal government for Medicaid. As with AFDC, state JOBS plans had to be approved by the federal government and had to meet a number of federal requirements. The federal government, for example, required states to include certain education and work-related activities in their JOBS programs, required states to achieve minimum participation standards among AFDC clients each year, specified which categories of AFDC recipients were required to enroll in JOBS and which could be exempted, and so on.

The states, in turn, could decide what types of activities they wished to emphasize in their JOBS programs — immediate job placement versus training, for example. They also could run their JOBS programs differently in different jurisdictions, rather than pursuing statewide administrative uniformity as they were required to do under AFDC. States also could require JOBS participants to sign an agreement specifying their obligations under the JOBS program, could transfer a participant's AFDC grant to an employer who then would put the JOBS participant to work, and could require participants to "work off" their AFDC grant through community work experience. The options were nearly endless.

As with AFDC, though the State of Wisconsin set the guidelines for the state's JOBS program, state employees did not run the program on a day-to-day basis. The counties did not have a monopoly on JOBS administration either, however. Rather, unlike AFDC, day-to-day administration of the JOBS program was open to virtually any qualified public or private entity the state wished to contract with.

The state had a significant number of contracts for JOBS administration with purely public entities — usually the county social services department or the state Job Service. In fact, public entities such as these ran the JOBS program in 35 of 72 counties in the last full year of the program's operation. Even in these counties, however, the public agencies often subcontracted important JOBS functions to private, sometimes for-profit, companies. This was the case in Milwaukee County, where, although the state became the JOBS program administrator after the county declined the role, on a day-to-day basis JOBS was run primarily by private local agencies with which the state had contracted. In 22 counties, the administration of JOBS was handled by a coalition of public and private groups. In Shawano County, for example, the JOBS program was jointly run by the state Job Service and Forward Service Corporation, a non-profit company. Finally, in 15 counties, the JOBS program was administered by private entities such as the Waukesha/Ozaukee/Washington PIC in those counties, and by the Forward Service Corporation in Forest, Oneida, Vilas, and a number of other counties.³

III. A FIRST MOVE TOWARD CHANGE

Prior to 1994, state officials involved in welfare reform had devoted most of their energy to securing federal waivers for programs like Learnfare, Children First, and two-tier welfare, and ensuring that those programs operated effectively. In general, they had left the counties and private vendors involved in the JOBS program to run their programs as they saw fit. This had led to a variety of approaches to JOBS by different vendors around the state.⁴

The JOBS program in Milwaukee was one of the least effective, producing essentially no caseload reduction since its inception. Milwaukee County had opted out of administering JOBS when the program first started. The state, therefore, had taken over as program administrator, but had subcontracted day-to-day administration of JOBS to several public and private vendors, all loosely coordinated by the state Job Service.

The Job Service did intake for new program participants, and the various JOBS vendors would make their pitch to those participants, offering education, or work experience, or job-placement services, depending on the individual agency's service philosophy. There was no coordination between the agencies, however, and each tried to offer a full complement of services rather than focusing on one or two it might do especially well. No agency could perform every service well, however, so service quality suffered. Furthermore, because there was no coordination between agencies, there were often substantial delays in getting AFDC recipients into a JOBS track as they bounced from one agency to the next. Finally, no one vendor could be held accountable for program failures because each vendor was handling only a fraction of the JOBS population.

Faced with these problems, in 1993, Jason Turner — who was then the Manager of Employment and Training with the Division of Economic Support in the state Department of Health and Social Services — took on the task of “fixing” JOBS in Milwaukee. Turner focused on the contract structure for JOBS agencies. Under the existing contract, agencies were paid on the basis of services provided, not results. The state fronted the JOBS agencies some contract money based on estimates of how many program participants they would serve in the coming year. The state then followed up to ensure that the vendors were in fact serving the participants they were supposed to be serving. As long as they were doing so, they could continue receiving state funds for their services, even if those services failed to produce much in the way of results. Too often, they did just that.

For 1994, Turner resolved to restructure the contracts with Milwaukee JOBS agencies so as to make them more results-oriented. He split the agencies into two teams of providers and, in effect, set up a competition between them. Each team got a fixed budget to begin with, proportional to the size of the caseload it was expected to handle. Then

For the first time, the state's payment to JOBS vendors depended in part on their success in putting welfare recipients to work.

a performance pool of money was set aside that could be earned only by placing JOBS participants in work activities. Each team received a certain number of points for each recipient they placed in a full-time job, a part-time job, an on-the-job training position, or a work supplementation position. When the points were tallied at the end of the competition period, the dollars in the performance pool were distributed in proportion to each team's total points. Thus, for the first time, the state's payment to JOBS vendors depended in part on their success in putting welfare recipients to work.

As a result of this performance-based change in the JOBS payment structure, three things happened immediately. First, the JOBS vendors shifted to a labor-force-attachment approach in administering their programs. That is, they began devoting most of their energy to finding employment for JOBS participants immediately rather than putting them in education and training slots.⁵ Second, they began making extra efforts to recruit JOBS-eligible AFDC recipients to their programs. The more JOBS participants they saw, the more they could place in jobs, and the more money they could collect at the end of the competition. Finally, they began putting more pressure on the county to sanction AFDC clients who refused to show up for scheduled JOBS program orientations and enrollments.⁶

As a partial result of these changes, job placements increased by over 30% in the first six months of 1994 in Milwaukee County when compared with the first six months of 1993.⁷ Sensing that it was on to a good thing, the state expanded JOBS performance contracting to the rest of the state in 1995. JOBS providers outside of Milwaukee received only 80% of their normal budgetary allocations for JOBS in that year. The rest of the money was deposited in a performance pool, just as it had been in Milwaukee. The state then set minimal performance levels that JOBS providers had to reach just to earn their 80% base payment. Once they reached those levels, they were paid a fixed amount of money for additional job placements — \$800 for each full-time placement, \$400 for part-time placements, and \$200 for each placement in another work-related activity (on-the-job training, for example, or community work experience).⁸

Through this system, JOBS providers could earn more than 100% of their normal allocation if their performance was good enough. The initial 80% base payment was reduced to a lower percentage in subsequent years, however, such that counties had to earn more and more of their JOBS contract through performance. And JOBS agents that failed to earn any funds from the performance pool had their base percentage reduced even further. This philosophy

was carried to its logical end in Milwaukee, where by 1997 the JOBS providers, no longer organized into two competing teams, had to earn virtually *all* of their contract payments on a performance basis.⁹

Without a formal evaluation, it is impossible to determine exactly what effect this shift to performance contracting had on AFDC caseloads and on job placements. But caseloads went into a sharp decline after the implementation of JOBS performance standards, and state officials clearly believed that performance contracting resulted in higher rates of job placement. State documents note that following implementation of performance standards, “enrollment in work experience jumped, up-front job search became standard and welfare exits due to work went up sharply.”¹⁰ These conclusions would have an important influence on the design of the Wisconsin Works program.

IV. THE 99 GROUP AND THE CREATION OF W-2’S ADMINISTRATIVE STRUCTURE

Shortly after Governor Thompson signed legislation in December of 1993 ending Wisconsin’s participation in AFDC by January 1, 1999, Gerald Whitburn, Secretary of the Department of Health and Social Services, assembled a study group whose job it was to design a welfare replacement program. The group was known as the 99 Group, signifying the year by which AFDC was to be phased out. The group’s ideas ultimately became the basis for W-2.

The members of the 99 Group were Andy Bush, a policy analyst with the Hudson Institute; Shannon Christian, planning director for the Department of Health and Social Services; Laura Kaye, another Hudson analyst; Jean Rogers, administrator of the Division of Economic Support in the Department of Health and Social Services; Jason Turner, Manager of Employment and Training in the Division of Economic Support; and John Wagner, an aide to Secretary Whitburn and a former research fellow at the Wisconsin Policy Research Institute.

Competition

The author interviewed all of the 99 Group members in an effort to reconstruct the thinking that produced W-2’s administrative structure. One of the more momentous decisions the group made was to end the counties’ monopoly on public assistance administration and award contracts for W-2 on a competitive basis. Inevitably, this would open the entire system to potential private administration. What was the source of these ideas?

Several of the 99 Group members indicated that the state had been dissatisfied with the uneven administrative performance of the counties under AFDC. In some counties, caseloads had fallen sharply — but in others, most noticeably Milwaukee, they had barely budged. Noted John Wagner:

One feature of the old system was that with the counties as administrators, there had been varying degrees of success in running AFDC. Our operating premise was that that system had been blown up, and now we really could put anything in its place that we wanted. So that created a vacuum for ideas on a new administrative structure.

Based on the state’s own experience, competition and privatization were among the ideas that rushed into that vacuum. As noted above, the state’s JOBS program had been operated to a great extent by private vendors, many of which had played an important role in the state’s caseload decreases. Furthermore, the experiment with competition in the Milwaukee JOBS program appeared to have improved job-placement performance sharply. Naturally, the 99 Group’s discussions were shaped by these local models of privatization and competition. According to Andy Bush, “The most important influence on the decision to allow competition under W-2 was the state’s experience with the JOBS program.”

The group’s members looked outside the state for ideas as well. As part of their thinking about a new public assistance system in Wisconsin, group members read extensively about innovative, effective practices being undertaken elsewhere. The group studied the performance of private, for-profit welfare-to-work companies like America Works, employment agencies like Manpower, health maintenance organizations, privately financed education voucher programs, privatized child-collection services, and welfare-reform programs that had relied extensively on private vendors. Said Shannon Christian:

What we found was that a lot of the more innovative programs were being run outside of government. A lot of the privatization efforts we looked at were showing very good results, and a lot of the government-run programs were bogged down by union contracts and state regulations.

Some of the 99 Group members also claimed that over the years, many counties — Milwaukee was the most conspicuous example — had told state officials that they wanted to be freed from the responsibility for administering state-mandated programs. Relations with the state over such programs could be trying, and the counties often complained about inadequate state funding. Many apparently would have been happy to get out of the business of public assistance altogether.¹¹ Under these circumstances, it made little sense to continue the counties' monopoly on program administration under W-2. According to Jean Rogers:

Over the years we'd heard from some counties, including Milwaukee, that they wanted to stop running these programs. We didn't want people doing W-2 who didn't want to do it. We wanted agencies that wanted to be agencies. We wanted the best and most motivated providers. And a system that gave a monopoly to governmental entities was not going to accomplish that for us.

Competition for W-2 agency spots, however, did not necessarily mean privatization. It was possible that the counties, facing job loss if they were to relinquish control of public assistance programs, and having years of administrative experience with such programs, might bid and win administrative control of W-2 in most of the state. Would that outcome have been acceptable to state officials? Asked differently, was the real objective of competitive bidding to transfer control of the new program from the counties to private entities?

No, was the nearly uniform response from 99 Group members. Again, Jean Rogers:

If there's no other game in town, there's not that much incentive to change. So we wanted providers to know that they could be replaced through competition. And if public entities couldn't do the job or didn't want to, then it's a given that private agencies would take over. But I'd say we got privatization because we were interested in competition, not because we were interested in privatization per se. We never intended to go completely in the direction of privatization.

John Wagner:

Competitive bidding was less about wanting to privatize the system than about trying to improve it through private-sector competition. We always thought the counties could be involved in W-2. If they could do it better than private entities, that was fine. But we thought that if we had open competition, people would have to produce. They would have to perform.

Shannon Christian:

We didn't set up a competitive structure with the intent of achieving as much privatization as possible. If the counties could be as effective as private agencies, fine. We just wanted to be sure that only the motivated counties would be involved. We wanted what was best for program participants.

Andy Bush:

We were somewhat worried about the culture of existing welfare offices, and we wanted to put some of W-2 in the hands of private agencies so as to shake up that culture. But eventually we realized that achieving the outcomes we wanted had more to do with how we set up the contracts and the regulatory structure than with who was running the program. If the counties could do it, fine. If they could compete, fine. We didn't necessarily want them out, though we had some worries about them. What we really wanted was a shock to the system through competition.

Despite these comments, there clearly was a desire to have at least *some* of the administration of W-2 in private hands. As quoted above, Jean Rogers noted that when the counties wanted out of W-2, privatization was the natural alternative, and a desirable one at that. She also added, "We wanted to have a mix of for-profits, non-profits, and public entities running W-2. We wanted to have a variety of different approaches, so you could see what was best

practices, what worked.” But the emphasis seems to have been at least as much on competition as privatization. Again, Andy Bush, echoing Jean Rogers:

To achieve the kinds of changes we were trying to achieve, you had to encourage innovation. You had to let the counties know that other people could come in and take the thing over if they didn’t perform. You needed the prospect of that as a means of pushing counties to perform. You couldn’t just say, “Here’s what we’d like you to do.” You had to say, “And if you don’t do that, someone who can will come in and take it over.”

Driven, then, by a desire to identify the best possible vendors, to allow the counties that wanted out of public assistance to get out, to create incentives for maximum performance among vendors through the prospect of displacement by another vendor, and to reap some of the benefits of private administration, the 99 Group decided that W-2 should be open for competitive bidding in the state’s 72 counties.

Performance contracting

Another major innovation the 99 Group decided to make part of W-2’s administrative structure was performance contracting. As noted above, the counties involved in administering AFDC and the public and private vendors responsible for the JOBS program had, for much of both programs’ history, been paid on a cost-reimbursement basis. As long as they were spending their money on activities that were eligible for reimbursement — payment of benefits to clients, education, training, and administration — they were reimbursed by the state. Whether the county administered its AFDC program poorly or in exemplary fashion, whether its caseloads rose or fell, whether it was successful or not in diverting AFDC applicants to other programs or to private-sector resources, none of this mattered. The state was always there with a check.

The substantial performance improvements that followed these changes caught the eyes of the 99 Group’s members, several of whom cited the JOBS experience as partial inspiration for the idea to include performance contracting in W-2.

The same had been true for JOBS providers until 1994 in Milwaukee, and 1995 in the rest of the state. The JOBS administrative agencies had been paid for providing services, not for producing results. Thus, if a JOBS agency in Milwaukee County arranged to put 1,000 AFDC clients through a GED program, it was paid for doing so. It did not matter if none of the 1,000 ended up with a job, or even if many of the 1000 dropped out of the program halfway through. As long as the agency was following procedures, enrolling clients in eligible activities, and adhering to the terms of its contract, it received contract payments from the state.

All of this changed with the introduction of performance standards to the JOBS program in 1994 and 1995. The substantial performance improvements that followed these changes caught the attention of the 99 Group’s members, several of whom cited the JOBS experience as partial inspiration for the idea to include performance contracting in W-2.¹²

But there was more at work than this. The 99 Group members also saw performance contracting as part and parcel of what they were trying to accomplish with W-2. Andy Bush explained this point:

We knew we wanted the new program to be *very* different from the old one on a programmatic level. We couldn’t have a one-size-fits-all approach. We needed to encourage diversity, creativity, and innovation. So we didn’t want to have a regulated system that specified what contractors had to do. We wanted to focus on the outcomes we were looking for and give the contractors the power to achieve them. Performance contracting fit with that idea of generating creativity, not a uniform approach. The contract is very simple. We give W-2 agents a fixed amount of money, tell them what outcomes we want them to achieve, and let them go to it. The better they do, the more money they make. There’s a lot of power in that idea.

Jason Turner explained a complementary, though somewhat different, motivation behind the 99 Group’s decision to implement performance contracting for W-2:

If W-2 was going to be a success, we needed to have our program administrators totally rethink their ideas about public assistance. We needed to make them understand that this program was going to be about work from day one, that the best way to help people was to help them find a job. And we needed to get that message across from the person at the top of the organization all the way down to the line worker who deals with program participants on a day-to-day basis. We had found in the past that performance contracting was one way you could change thinking and behavior within the organization. Once the organization's compensation is tied to its performance, messages about desired outcomes and the actions necessary to achieve them are reinforced constantly, by every level of management, all the way down to the line worker. Everyone begins thinking and acting in terms of the performance standards, not simply whatever process they had followed in the past. This sort of change was critical if W-2 was going to work.

Performance contracting, then, was seen as a tool for ensuring the success of W-2. 99 Group members wanted W-2 agents to be driven by a concern with outcomes, not process. And they wanted W-2 agents to pursue whatever programmatic approaches they thought would lead them to the desired outcomes. Thus, a contract that pegged vendor rewards to the outcomes the state wanted to achieve, yet specified very little about required inputs or procedures, seemed a logical choice. Plus, structuring the contract in this way seemed likely, based on the state's past experience, to help program administrators shape thinking, and therefore behavior, from the top of administrative agencies to the bottom.

Centralization

One other important administrative change the 99 Group decided on deserves brief mention here, though a more detailed discussion is outside the scope of this paper. That change was to centralize the intake/eligibility and employment functions under W-2 not just in one location, but in large part within one person, the Financial and Employment Planner.

Under the pre-W-2 regime, the AFDC and JOBS programs were administered separately — in different physical locations, and very often by different agencies — in more than half of the state's counties.¹³ This arrangement produced a number of undesirable results. With separate agencies administering separate parts of public assistance, it was very difficult to maintain a consistent, unified message about the responsibilities of program participants.¹⁴ Participants also had to go from one office to the next to take care of all of their needs, often having to meet with several different case managers. There could be poor communication between the AFDC side of public assistance and the JOBS side, resulting in clients not being referred to JOBS when they should be, sanctions not being applied when they should be, and cases not being closed when eligibility had expired. Finally, with the division of responsibilities also came a difficulty in rewarding success or punishing failure, because it was difficult to know where the credit or blame should rest.¹⁵

The 99 Group determined to remedy these problems through a centralization of program administration. First, they decided that in every geographic region, there would be only one administrative entity ultimately responsible to the state for program performance. That is the W-2 agency. Though the agency in each county can sub-contract functions (and all do), accountability for the success or failure of the program ultimately rests on the agent's shoulders alone. Second, they pushed to have all W-2 program resources located in the same physical location, known as a Job Center. This simplifies life for program participants and facilitates communication between workers who share responsibility for different aspects of the same participant's case. Finally, the 99 Group effectively combined the intake and the job placement functions of the old system in one person, the Financial and Employment Planner. Thus, there can be no more conflict or miscommunication between these two parts of the system, because they are now the responsibility of only one worker.

V. THE RIGHT OF FIRST SELECTION

The 99 Group had the luxury of undertaking its deliberations more or less in secret, which allowed the discussions to flow from the premise, "if we could do anything we wanted" As noted above, one of the things the group wanted to do was open the administration of W-2 to competitive bidding. Though that may have seemed a sound idea behind close doors, it would not necessarily be a politically popular one. After all, competitive bidding meant that the counties would lose their monopoly on program administration, and that could mean substantial job loss.

That point was not lost on county workers when the 99 Group's draft proposal leaked in the spring of 1995. The draft was substantially more pro-privatization than one might imagine from the interview excerpts presented above. According to the draft document:

We should abandon our assumptions about government's traditional role in managing programs and look to private alternatives using market and performance mechanisms to best achieve our objectives [p.2].

[F]or too long government has been the assumed operator of the programs it devises. A more effective model is almost always for the government to set the ground rules and then let non-government entities actually operate programs under public oversight [p.6].

Where appropriate, the system should take advantage of the superior capabilities of the private for-profit sector to achieve W-2 objectives, as well as to assume risk [p.59].¹⁶

There were county workers living in virtually every Assembly and Senate district, and they naturally were disturbed by such language. Their union immediately began putting pressure on their representatives in the legislature to do something.¹⁷

Jason Turner told the author in an interview that the county workers had over-reacted to the prospect of competitive bidding:

Outside of Milwaukee and Dane County, some of the county people were hotshots. You wouldn't want anybody *but* them running the program. Some of these people had been waiting for a program like W-2 for years. So we never envisioned that we'd have something like 55 counties privatized anyway.

But because the 99 Group's draft document had leaked, rather than being introduced and explained fully by the Thompson administration, subtleties like this were lost on county workers, and they and their representatives in the legislature were demanding some sort of assurances.

As this was happening, something else occurred to members of the 99 Group: county workers who thought they might be out of a job under the state's new public assistance program might feel that they had less of a stake in the state's *current* programs, AFDC and JOBS. According to Andy Bush:

In early 1995, there was still a lot of time before the new program was supposed to start, and we were afraid that the counties just might stop working and not get their caseloads down to a manageable level. We needed to get caseloads down or W-2 would cost too much. We needed to give the counties an incentive to keep working.

Facing both an outcry from public employees and the possibility of counties giving less than their all in the remaining years of AFDC/JOBS, the 99 Group's members were forced to compromise on the question of competitive bidding. That compromise began with the state establishing caseload reduction, job-placement, and AFDC expenditure targets for the counties to meet between September 1 of 1995 and August 30 of 1996. If they met those targets, they would earn the "right of first selection" with respect to W-2. That is, the county would qualify automatically to be the W-2 vendor if it wished to be, without any competition from other interested parties.

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The first criterion most counties had to achieve was a 25% reduction in AFDC caseloads between September 1 of 1995 and August 30 of 1996. That percentage could be adjusted depending on each county's record of caseload reductions since 1987, and on its percentage of long-term cases and its refugee population. Any county that failed to meet the caseload-reduction goal also failed to earn the right of first selection. But counties that met the caseload goal then had to achieve specific job-placement, work-activity, and AFDC expenditure targets in three time periods,

one running from September 1, 1995, to March 1, 1996, the next ending June 1, 1996, and the next ending September 1, 1996. The targets for the first of these periods were pegged to what the top 25% of the state's counties had achieved in the most recent measurement period. The targets for the next two time periods were ratcheted upward, based on state officials' perception of what would be demanding but "meetable" performance criteria.¹⁸

The right-of-first-selection criteria were designed to weed out counties that could not perform at the level needed to make W-2 work, and to "weed in" those that could. According to Mark Hoover, former director of the Bureau of Management and Operations in the Department of Workforce Development:

The right-of-first-selection criteria were really set up to answer this question: are you willing and able to run a work-based program? If you could meet the criteria, then you were. If you couldn't, you probably weren't.

Jason Turner added:

By meeting the performance criteria, the counties were setting themselves up for falling into place when W-2 started. You were getting the caseload down to a manageable size and getting everyone else in a pre-W-2 track. If you met all the performance criteria, you'd be running a high-octane program.

So how did the counties do? According to Turner, the impact of the right-of-first-selection criteria was immediate and impressive:

The counties were totally motivated by having specific criteria to meet. It worked even better than we thought. The county people were looking at their data, asking "how are we going to do this?," reorganizing their intake, beginning to totally rethink their programs. It was phenomenal.

By the end of the performance period in August of 1996, 67 of the state's 72 counties had earned the right of first selection, meaning that they could be the W-2 administrative agent without facing competition from other potential vendors. The counties that did not meet the performance criteria necessary to earn the right of first selection were: Douglas, Green Lake, Walworth, Milwaukee, and Menominee. There would be competitive bidding for the role of W-2 agent in these counties. A number of other counties earned the right of first selection, but opted not to exercise it (consistent with claims by 99 Group members that some counties simply wanted out of public assistance administration). Those counties were Juneau, Oneida, Kewaunee, Shawano, Forest, Vilas, and Waukesha. Thus, there were potentially 12 counties, including the state's largest, open to competitive bidding for the right to administer W-2. That number was reduced to 11, however, when the state exercised its discretion to grant the contract for Menominee County to the county without open bidding.

VI. W-2 AND MILWAUKEE COUNTY

In August of 1996, the state issued its Request for Proposals (RFP) soliciting bids from any entity interested in being a W-2 agent. The proposal had to describe what county or counties the bidder was interested in, how it would administer the program, and for how much money. The state, however, set a ceiling on the amount of money a potential provider could charge for each geographic region. Providers could offer to run W-2 for less money than the state had specified for a particular geographic region, but not for more.

Open bidding was limited to the 11 counties identified above, although counties that had earned and exercised the right of first selection also had to submit plans for administering W-2. Of the 11 counties open for bidding, one of them, Milwaukee County, was divided into six separate geographic regions. Providers interested in running W-2 in Milwaukee could bid on one of these regions, all of them, or any number in between. Thus, there were a total of 16 discrete geographic areas open for bidding — 10 counties and six regions within Milwaukee County. At the time bids on the RFP were due, about 65% of the state's AFDC caseload resided within those 16 areas.¹⁹ Thus, a healthy majority of the state's caseload would operate under a W-2 program that had been competitively bid.

Of the five counties that had not earned the right of first selection — Douglas, Green Lake, Walworth, Milwaukee, and Menominee — Douglas and Green Lake ultimately bid for the right to run W-2 and were successful. Menomi-

nee County, as noted above, was awarded the W-2 contract by the state even though it had not earned the right of first selection. And Walworth and Milwaukee Counties chose not to bid to run W-2.

Because Milwaukee County had about 60% of the state's AFDC caseload when bidding was open in 1996, and nearly 70% of the caseload by the time W-2 started, the county's decision not to enter a bid to run W-2 in Milwaukee was a momentous one. Why did the county opt out of administering W-2? The answer to that question is an elusive one.

Shortly after W-2 became law, another piece of legislation, the Government Operations Act, amended the initial W-2 statute with some curious language about the administration of W-2 in Milwaukee County:

In a county having a population of 500,000 or more the department [of Workforce Development] shall, prior to awarding a contract to administer Wisconsin works in that county, work with the county for a period not to exceed 6 months to establish a plan for the first 2 years of administration of Wisconsin works in that county. The plan shall establish the methodology for conducting a competitive bidding process to award a contract to administer Wisconsin works in that county. The plan shall identify an administrator to oversee the administrative structure of Wisconsin works in that county and to oversee the Wisconsin works agencies in that county.²⁰

This language was specific to Milwaukee County. All other counties were governed by a selection process covered in the W-2 authorizing legislation. For Milwaukee, however, the statute authorized discussions between the county and the state “to establish a plan” for how W-2 was to be administered. That plan at least would include a methodology for selecting W-2 agents if the county failed to earn and exercise the right of first selection, and also would include discussions of program oversight in Milwaukee County.

But why was it necessary to hold negotiations at all? After all, there were no negotiations between the state and the rest of the counties, and there was a clear process in place for those counties. If the county did not earn and exercise the right of first selection, the state would set up a competitive bidding process and pick the winner. The winner then would administer W-2. So why not just follow the same procedure in Milwaukee County? Why invite the county into negotiations over how W-2 would be administered?

In an interview with the author, Jason Turner said that at the time the W-2 program was being shaped into a legislative document, Milwaukee County Executive F. Thomas Ament had expressed to Governor Thompson his desire to have the Milwaukee Private Industry Council (PIC) play a very large role in the administration of the new program. According to Turner, Ament wanted the PIC to play the role the state would be playing elsewhere — setting up the competitive bidding process, selecting the winning bidders, paying them their contract money, and overseeing their administration of W-2. The state, however, was not willing to relinquish to the county so much authority over the new program. The statutory language, therefore, recognized this disagreement and said, in effect, “we haven’t been able to agree on a role for the Milwaukee County PIC in W-2, so for now we’ll agree to sit down and talk about it later.”

Mark Hoover, former head of the Bureau of Management and Operations in the Department of Workforce Development, and a participant in the negotiations that ultimately took place between the state, Milwaukee County, and the Milwaukee Private Industry Council, had a somewhat different take on the statutory language. According to Hoover, County Executive Ament and Milwaukee legislators had worked to get the language put in the bill so that they would have some say in the development of W-2 in Milwaukee. Hoover said this was something the state wanted, too:

The basic idea was that the county should have some ownership when it came to W-2. It would have been

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difficult to make it work in Milwaukee if the county had been opposed to it, and this was a way to ensure that they had some input in the way it was going to be set up.

Whatever the fine points, it was clear that when the W-2 legislation passed, neither the state nor the county was content to let W-2 evolve in Milwaukee as it would in the rest of the state. Representatives of the county naturally wanted to exercise as much influence over W-2 as possible, either through the Private Industry Council or the county Department of Human Services. Recognizing that if W-2 failed in Milwaukee, it would fail, period, the state appears to have agreed to negotiations with county officials so as to maximize the program's chances for success.

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One way of maximizing success through negotiations was consistent with Hoover's explanation — the state wanted to give the county partial "ownership" of W-2, thereby ensuring its cooperation in the program. But another, not necessarily competing, way of maximizing success through negotiations was to limit the county's role in W-2. By stipulating that Milwaukee's role would be decided through negotiations, the state basically could negotiate the county out of the position

of W-2 agent. If Milwaukee's role were not pinned down through negotiations, the county might earn and exercise the right of first selection, or it might bid successfully to be an agent.

Why would that be a problem? The county had not distinguished itself in the administration of AFDC, according to Jason Turner:

There was no evidence that Milwaukee County was a capable public assistance manager. The component elements of a good welfare system are control of the client at all points in the system, a reduced number of moving parts, which means limiting the number of offices a client has to visit, short periods of time between different program components, and swift and sure sanctions. None of these things applied in Milwaukee.

The county also had been delinquent in recording earned income associated with AFDC cases and had failed to close cases when they should have been closed. Milwaukee County also had a very high Food Stamp error rate.²¹

Whether or not such concerns led state negotiators to try to keep Milwaukee County out of W-2 administration is unclear. It is clear, however, that there was never any serious discussion of the county having a role in administering W-2. When the author asked Jean Rogers, one of the negotiators in the talks over the county's role, if the state had ever considered including Milwaukee County as a W-2 agent, she responded, "No, never." When asked why, Rogers said in part that the county had communicated to the state its lack of interest in being a W-2 agent. Mark Hoover, another state negotiator, concurred in this assessment.

It is certainly true that among Milwaukee County Supervisors, there was some sentiment against the county running W-2. Supervisor Daniel Diliberti, for example, sponsored a resolution notifying the state that the county was not interested in administering the program. Diliberti cited the county's "difficult and costly experience" in administering other state programs, and worried about the county getting stuck with a large share of program expenses.²² But Diliberti's proposal never passed the County Board, nor did any proposal like it. The reason is that the supervisors' sentiment on the county's role in W-2 was mixed — some wanted the county in, and some did not.²³

Furthermore, a *Milwaukee Journal Sentinel* article covering the negotiations indicated that state officials, not those with the county, were the ones acting to keep Milwaukee County out of W-2: "County and state administrators have made clear to [Milwaukee County] supervisors that the state does not want the county to be a W-2 agency."²⁴ When the author asked County Executive Ament about this, he said, "The state set up a process in which 71 counties could run W-2 if they wanted, and one couldn't — Milwaukee. I would have liked the county to have a role as a W-2 agent, but the state didn't want us." County Supervisors also passed a resolution, 16-9, on November 7, 1996, instructing Ament to negotiate a direct county role as a W-2 agent.²⁵

The balance of the evidence, therefore, suggests that although many county officials did want a role for Milwaukee as a W-2 agent, that was not a possibility the state was willing to entertain. Why not? State officials may have had legitimate concerns about the county's capacity to handle W-2, or about the commitment of county officials to the program. But even if they did not harbor such concerns, another problem clearly would have arisen had the county been awarded the role of W-2 vendor. As noted above, County Executive Ament wanted the Private Industry Council to have a substantial role in overseeing W-2 in Milwaukee County. But if the county were overseeing the program through the PIC, and the county also were administering part or all of the program in Milwaukee, that would be a conflict of interest. The county would be overseeing its own administration of W-2.²⁶

Either for this reason or due to concerns about performance or both, the negotiations between the state, the county, and the PIC resulted in Milwaukee County being denied a role as a W-2 agent. The negotiations did, however, carve out a meaningful, if indirect, role for the county in W-2. According to the terms of the negotiated agreement, the county would continue to determine eligibility and perform case management functions for child care, Food Stamps, and medical assistance for poor families and individuals in Milwaukee County. The state apparently was persuaded by arguments from the county and the PIC that transferring those functions to private providers could result in the loss of hundreds of high-wage jobs to county workers, an impolitic way to launch W-2. In any case, the federal government ultimately ruled that the Food Stamp and Medicaid programs had to be run by public employees, just as AFDC had been. The state also acknowledged that the county had developed expertise in eligibility determination for Food Stamps and Medicaid — something that private providers did not have — and so should retain those functions.²⁷

In addition to a continued role in non-W-2 assistance programs, the county also was among the parties that selected the winning W-2 bidders in Milwaukee County, and is represented on the Private Industry Council, which oversees W-2 administration in the county. The county is also responsible for developing 2,000 community-service jobs for W-2 participants.

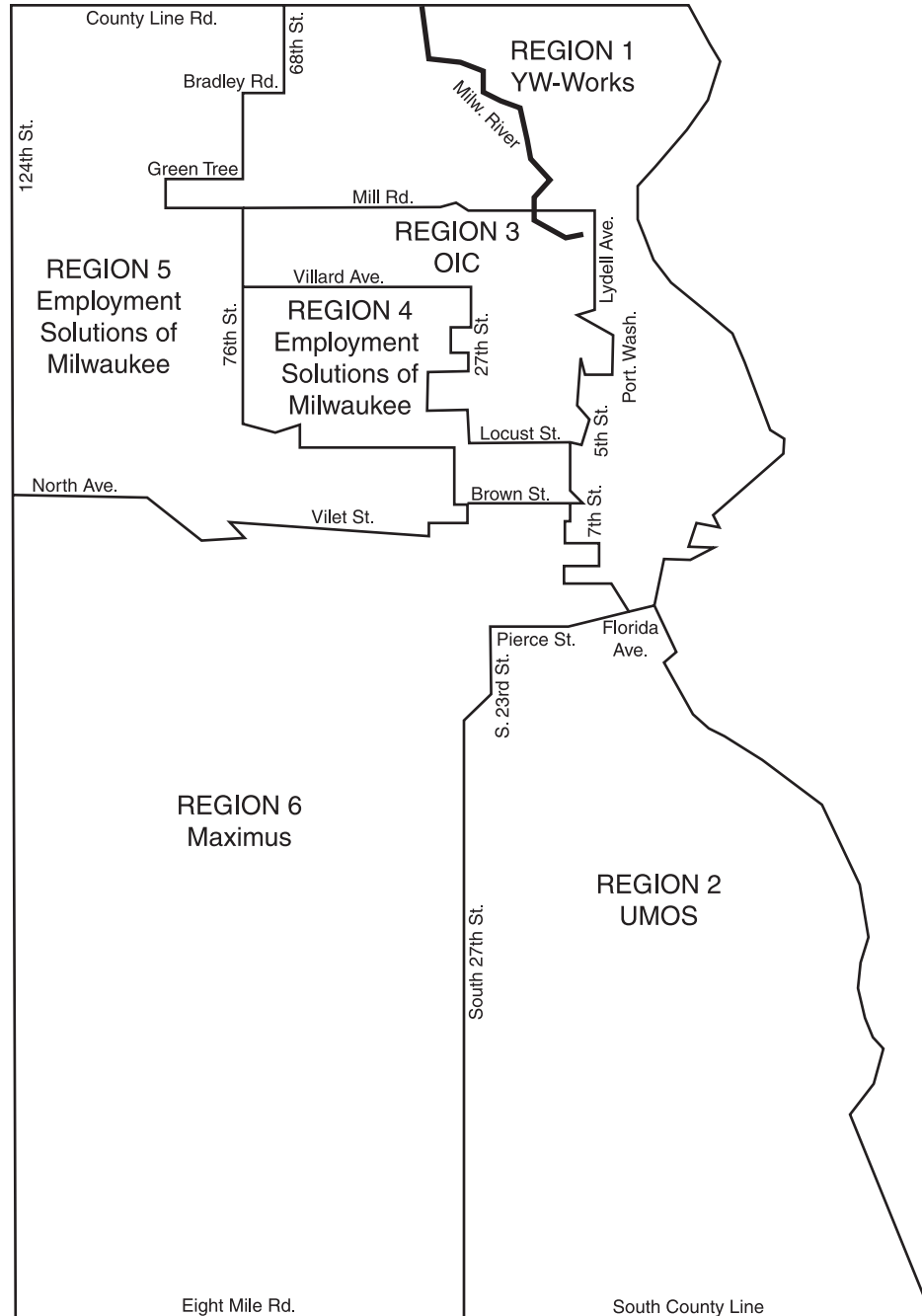
VII. THE COMPETITION, THE WINNERS, AND THEIR CONTRACT

With Milwaukee County out of the picture as a direct W-2 agent, bidding was open for the six regions in the state's largest county and in the 10 other counties in which the county social services department would not be administering W-2. Bidders had to submit a written proposal to the state describing in substantial detail their organization, their vision for the program in the geographic area they proposed to serve, the expected operation of the program at the local level, a cost proposal for administering the program, and the organization's experience in programs similar to W-2.

Proposals were due on November 15, 1996, and some bidders were required to follow up their written submission with an oral presentation to the state. Agency selections were announced in January of 1997. The agencies that were selected then signed start-up contracts to help them set up shop to run W-2. Those contracts ran from March of 1997 through the end of August, 1997. The agencies also signed contracts for the actual implementation of W-2. Those contracts ran from September 1, 1997 through the end of 1999. Significantly, the language of the legislation authorizing W-2 indicates that after these initial contracts are up, the state is free to contract with any entity it deems fit to run the program in each county. Thus, there may yet be open, competitive, statewide bidding to run W-2 — but not until 1999.

Curiously, the state never produced a summary report of how many entities bid to be W-2 providers, how many were public, how many were private, how many were for-profit, and so on. What follows, therefore, is a description of only the successful private bidders in the nine counties open for bidding in which private entities were selected.²⁸ (See Maps 1 and 2 on pages 16 and 18.) The winning private bidders were as follows:

Milwaukee Region 1: YW Works. This is a joint effort between the YWCA of Greater Milwaukee, a non-profit organization, and two for-profit companies, the Kaiser Group, Inc., and CNR Health, Inc. The YWCA acts as managing member of the team. Prior to W-2, the YWCA had operated a Job Center in Milwaukee and thus had administered a number of programs under JOBS, the Job Training Partnership Act (JTPA), and the Food Stamp Employment and Training program (FSET). The Kaiser Group is a Wisconsin company in the business of designing and ad-

MAP 1 Milwaukee County W-2 Service Regions

ministering employment and training programs for disadvantaged workers. CNR is a managed-care corporation responsible primarily for information management in its W-2 role.

Milwaukee Region 2: *United Migrant Opportunity Services, Inc. (UMOS)*. UMOS is a non-profit, community-based organization in Milwaukee that provides employment/training, family, and health services primarily to migrant and seasonal farm workers. Prior to W-2, UMOS had run programs under JOBS, JTPA, and FSET, and also had helped administer programs like “Bridefare” and migrant Head Start.

Milwaukee Region 3: *Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC)*. OIC is a non-profit, community-based organization in Milwaukee providing employment, training, education, child care, and housing rehabilitation services to Milwaukee’s central city. Prior to W-2, OIC had been involved in administering JOBS, the JOBS predecessor program Work Experience and Job Training, Pay for Performance (PFP), FSET, and JTPA.

Milwaukee Regions 4, 5: *Employment Solutions of Milwaukee, Inc.* Employment Solutions is a non-profit subsidiary of Goodwill Industries of Southeastern Wisconsin, Inc., established for the purpose of administering W-2. Goodwill provides economically disadvantaged individuals with employment opportunities, both through direct employment and training and placement. Prior to W-2, Goodwill’s Wisconsin experience included the JOBS, FSET, PFP, Children First, and Foster Youth programs.

Milwaukee Region 6: *Maximus, Inc.* Maximus is a for-profit corporation that provides program management and consulting services to government health and human services agencies. The company’s area of expertise is welfare-to-work programs. Prior to W-2, Maximus had operated 10 major JOBS programs nationwide, had provided JOBS technical assistance in all 50 states, and had extensive involvement in the local administration of the Medicaid, Food Stamps, General Assistance, child-support enforcement, child welfare, day care, and juvenile justice programs.

Shawano County: *Shawano County Job Center, Inc.* The Shawano County Job Center, Inc., is a non-profit corporation established by the partners of the Shawano County Job Center — the Shawano County Department of Social Services, the Wisconsin Job Service, and Forward Service Corporation. The Department of Social Services and the Wisconsin Job Service are public entities, and Forward Service Corporation is a private, non-profit corporation providing employment and training services and job development/placement in 16 Wisconsin counties. Prior to W-2, the partners in the Shawano County Job Center had administered all of the employment and training programs run out of the Job Center — JOBS, FSET, JTPA, and so on.

Walworth County: *Kaiser Group, Inc.* See the description of the Kaiser Group under Milwaukee Region 1.

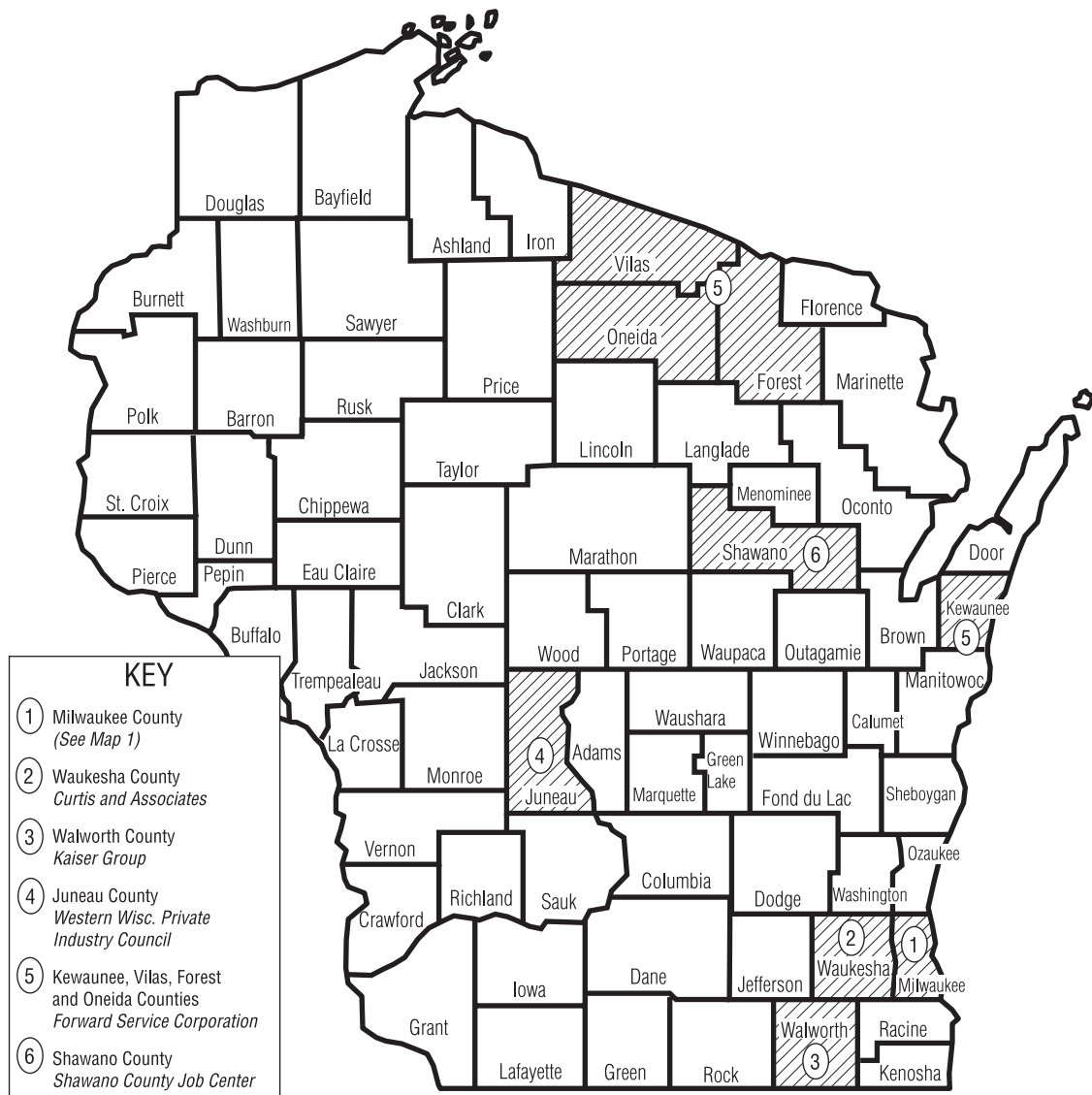
Kewaunee, Vilas, Forest, and Oneida Counties: *Forward Service Corporation.* See the description of Forward under Shawano County.

Juneau County: *Western Wisconsin Private Industry Council, Inc.* The Western Wisconsin PIC is a private, non-profit, business-led organization that provides employment and training assistance primarily to disadvantaged adults and youth in an eight-county area. Prior to W-2, the Western Wisconsin PIC had been involved in administration of the JTPA, JOBS, and learnfare programs, among others.

Waukesha County: *Curtis and Associates, Inc.* Curtis and Associates is a for-profit corporation that provides consulting and direct services to governments in an effort to make welfare-to-work and other employment-oriented programs more effective. Prior to W-2, Curtis had extensive experience nationwide in the JOBS, FSET, and General Assistance programs.

The contract

As noted above, it was the intent of the 99 Group to put the W-2 contract on a performance basis and keep rules, regulations, and required procedures to a minimum. The contract is indeed remarkable in its restraint. The document

MAP 2 Wisconsin Counties with Private W-2 Agencies

itself is only 12 pages, though there are an additional 30 pages of appendices. In both its main text and its appendices, however, the document says next to nothing about how W-2 agencies are to run their programs on a day-to-day basis. State regulations issued as of September 1, 1997, also were effectively silent on this point, and the W-2 authorizing legislation itself focused almost exclusively on desired outcomes, not procedures for achieving them. The state has left those primarily to the W-2 agencies in the form of their written and oral proposals in the fall of 1996.

As for the performance elements of the contract, they rest primarily on the principle of “capitation,” an idea 99 Group members borrowed from the managed-care model in health care. Capitation means that under the terms of the contract, each W-2 agency is paid a flat fee for administering the program in its geographic area over the first 28 months of W-2. All costs of running the program, including cash payments to participants, must be drawn from that fee. If program costs exceed the fee, the agency must make up the difference itself.

This creates an obvious incentive for W-2 agencies to hold down program costs. The best way to do that is by moving participants into unsubsidized, private-sector jobs as soon as possible. Placing someone in a private-sector job costs the W-2 agency only the time and resources necessary to develop the job lead with the employer and steer a W-2 participant to it. Placing someone in a community-service job, on the other hand, costs the W-2 agency the time and money necessary to develop that job *and* \$673 per month that the agency must pay the W-2 participant working the job. Thus, the faster the agency can move participants from fully subsidized community-service jobs to partially subsidized “trial jobs” with a private employer to unsubsidized private-sector jobs, the lower its costs will be.

If an agency can run W-2 for less money than the state has allocated it, it gets to keep part of the difference as profit.

If an agency can run W-2 for less money than the state has allocated it, it gets to keep part of the difference as profit. Specifically, if an agency’s costs in running W-2 are less than the contract amount, the agency can retain the first seven percent of contract savings as profit. If there are additional savings beyond that seven percent, the W-2 agency may keep 10% of any such savings for “unrestricted use” (that is, as profit). The remaining 90% of those savings go half to the state and half to the W-2 agency for reinvestment in services to low-income persons.

A look at some actual numbers helps to clarify the structure of the contract and the potential for profit. In Waukesha County, for example, Curtis and Associates has a contract under which the state will pay it about \$9.4 million over the first 28 months of W-2 operations. Imagine, however, that Curtis were able to run the program for \$8.4 million, a savings of \$1 million, about 15% of the contracted amount. Curtis automatically could keep any savings on the original contract up to seven percent. In this case, that would be \$658,000 (seven percent of \$9.4 million). Any savings beyond that would go 10% to Curtis for unrestricted use, 45% to the state, and 45% to Curtis for community reinvestment. Thus, of the remaining \$342,000 in savings, Curtis could keep about \$34,000 as profit. Its total profit, based on a savings of \$1 million on the original contract, would be about \$692,000.

It would be easy to overlook the significance of what the state has done by structuring the contract in this way. For the first time, it has given public assistance administrators a financial stake in the outcomes they produce. The counties never had this under AFDC. Under that system, processing more cases, keeping people on the rolls longer, and failing to apply sanctions had no financial consequences for program administrators. In fact, precisely the opposite was true; as long as the counties were engaging in reimbursable activities, the state kept writing checks.

All of that has changed now. Through a combination of capitation and the availability of profits in the event of contract savings, W-2 agencies have a financial incentive to move participants into unsubsidized work as quickly as possible. The better they perform on this score, the more money they make.

But the speed with which an agency moves a participant into work is not the only performance measure in which the state might be interested. What about the wages participants receive? How about the benefits attached to jobs? And what about job retention once a W-2 participant is placed?

One might have thought the state would peg agent compensation in part to performance measures such as these, particularly after the experience with performance contracting under the JOBS program. So why did the contract not include these more specific performance criteria? The author posed this question to Jean Rogers and Mark Hoover, and both gave the same answer: W-2 was a brand new ball game, and it was not entirely clear what the performance standards should be. Mark Hoover:

It was just too difficult to know what the appropriate baselines should be. There was nowhere else in the country we could look because no one had ever done anything like this. And we had not kept very good data on the caseload in Wisconsin to help us determine what reasonable expectations might be.

Jean Rogers agreed and added:

We were worried that if we established performance benchmarks arbitrarily, potential W-2 providers might ask, “Why should we accept those as reasonable?” And then they might not end up bidding at all. Instead, the way we ended up structuring the contract, providers only had to decide whether or not they could turn a profit based on the overall contract amount, not whether they could meet all the separate performance criteria.

Both Hoover and Rogers noted, however, that state officials thought they could create significant performance incentives through the mere act of capitation and the possibility of profits. Rogers added that the state is currently tracking variables like job retention and wage and benefit levels for the purpose of creating more explicit performance criteria in the next round of contracts.

VIII. WHY DO PRIVATIZATION AND PERFORMANCE CONTRACTING MATTER?

With W-2 underway and the new administrative structure in place, it is worth asking what difference that structure makes, if any. Privatization and performance contracting have both their detractors and their advocates who claim, respectively, dire consequences and significant benefits. Two of critics’ main concerns about privatization and performance contracting are job loss and quality of service.

Job loss

One very real concern about privatization of formerly public functions is that public employees may lose their jobs. The W-2 legislation clearly envisioned this possibility. In the event that a county chose not to exercise the right of first selection or, having failed to earn the right of first selection, chose not to bid to be a W-2 agent, the statute required:

[N]otice shall be provided to all employes [sic] of the county or tribal governing body who may be laid off as a result of the county’s or tribal governing body’s election not to enter into or compete for a contract and to the certified or recognized collective bargaining representatives of such employes, if any.²⁹

Even if the W-2 privatization efforts had resulted in no net job loss in the state, individual public employees certainly could have lost their jobs, and the disruption associated with that job loss would have to be counted among the costs of privatization.

Considering this possibility, the author spoke with the social services department head or human resources director, or both, in each county in which W-2 is privately administered. These individuals were asked whether or not there had been any job loss to public employees as a result of the privatization of W-2 in their county. The universal answer was “no.” Positions have been eliminated in some counties as a result of privatization, but when that has happened, county employees either have been given new assignments with the county or have gone to work with the private agency administering W-2. In Oneida County, for example, the Economic Support Division in the Department of Social Services eliminated jobs for two staffers, but those staffers were simply transferred to other county positions. In Waukesha County, five positions have been eliminated due to the privatization of W-2, but one of the five employees went to work for Curtis and Associates, the W-2 agent in Waukesha, and the other four were assigned to other county jobs.

In other cases, positions were eliminated through attrition when individuals retired or took jobs elsewhere, so there was no actual job loss. In Milwaukee County, for example, more than 100 positions in the Economic Support Division have been eliminated since March of 1996. That number — about 20% of the division's staff at its peak — is substantial, but it was a product of both the privatization of W-2 and declining caseloads in the county. Furthermore, because the positions were eliminated through attrition (manifested in a hiring freeze), no county employees were laid off or fired to achieve the reductions.

A final word on job loss bears noting here. As originally envisioned, W-2 would have allowed W-2 agents not just to manage the employment components of the program, but also to administer the Food Stamp and Medicaid programs. This latter provision, however, required a federal waiver because these programs have always been administered by public employees. As it turns out, the state's waiver was denied in the spring of 1997, meaning that administration of Food Stamps and Medicaid stayed in the hands of county employees. Had the federal government decided differently, public employee job loss under W-2 might have been more of a concern.

Quality of service

Critics of privatization worry that involving non-public entities in public assistance administration ultimately can be a disservice to clients. For-profit companies that are concerned with profits and returns to shareholders, and non-profits that have an interest in building a capital surplus, might be tempted to skimp on services or force some clients into private-sector jobs before they are ready in order to maximize savings under the capitated contract. A recent *Business Week* article put the case this way: "in their zeal to make a profit, private companies could harm people by cutting corners — by withholding benefits from the deserving or by providing inferior service."³⁰ These concerns generally have *not* extended to county social service departments, however, because the concepts of "profit" and "surplus" have had no real meaning to them as public entities.

If the W-2 agency fails to provide the services specified in its proposal and required by the contract, it is subject to a \$5,000 fine for each instance of failure.

Members of the 99 Group were aware of such concerns and took them seriously. One remedy, they thought, was to put explicit performance incentives in the contract.³¹ That is, providers would receive more money for placing participants in better jobs with higher wages, longer retention, and better benefits. Such incentives ultimately were left out of the contract, however, for reasons described above.

But 99 Group members had another remedy in mind, making penalties for non-performance a part of the W-2 contract. And in fact they are. Section 17.1.3 of the amended contract states:

If the W-2 Agency knowingly denies or refuses services; engages in a pattern of repeated failure to provide necessary accommodations required for persons with disabilities to access services; fails to correct a pattern of non-response to telephone contacts; fails to timely respond to written contact from a W-2 applicant or W-2 participant; or does not provide publicly advertised W-2 services in terms of location, hours, or staff availability, and the W-2 Agency knew or should have known that this service was required by the Contract ... liquidated damages will be assessed in the amount of Five Thousand Dollars (\$5,000) per failure to serve.³²

In other words, if the W-2 agency fails to provide the services specified in its proposal and required by the contract, it is subject to a \$5,000 fine for each instance of failure.

Still, this provision seems designed mainly to keep W-2 agencies from "cheating," not necessarily from providing a lower level of service than a comparable public entity might. Wanting to take critics' concerns on this point seriously, the author interviewed at least one representative from each of the private W-2 agencies operating in the state, except in Shawano County.³³ Among the questions asked was this, "How do you respond to critics' concerns that as a private entity you might be tempted to reduce the quality of services in order to achieve contract savings?"

The answers were nearly uniform, and very instructive. They can be summarized as follows: "We're not in this for the money."

Marcia Christiansen of Forward Service Corporation, operating in four of the state's counties, said:

There is a lot of discretion in the system, but we've come down on the side of providing more services rather than fewer. ... We're geared toward service provision and the needs of the consumer and what they need to become self-sufficient. We don't see this as a profit-maker. We're putting the available funds into services for our customers, not into our pockets.

Julia Taylor, the CEO of YW Works, operating in Milwaukee's Region 1:

Our focus has been workforce development. It's not been "let's make a lot of money." Our interest has been in using the money we've gotten to do things we always thought would be effective, but didn't have the freedom or the money to try. Our focus is on moving people into work. That's our bottom line.

Doris Green, Director of W-2 Operations for OIC, operating in Milwaukee's Region 3:

Making money is not our philosophy. You have to be very careful when you place people. If you say someone's job-ready, they get nothing. They don't get money for rent, they don't get anything. So you've got to be very careful, or people could end up in trouble. You've got to give them the time they need. Our basic concern is the participant, not profit. We're doing this to help them, not to help ourselves. That's not what we're about.

Peter Kaiser, president of the Kaiser Group, Inc., operating in Walworth County:

Our focus is on the family and on living-wage jobs. It sounds like rhetoric, but that's what I've been doing my whole life. My whole focus here is on retention and living-wage jobs. I'm not necessarily interested in corporate growth. I'm interested in good service and quality service. That's my incentive.

And George Leutermann of Maximus questioned whether there was money to be made on W-2 at all:

It will be a struggle for us just to make the seven percent. This is the first time anything like this has been done anywhere, so costs are going to be high. It's probably going to be a wash, but we certainly won't make any more than seven percent.

The cynic legitimately might wonder if such answers are merely self-serving, but all of the private W-2 agencies are taking actions that speak much louder than their words. That is to say, they are spending money they are not required to spend to administer the program, money that otherwise would end up in their pockets.

The Kaiser Group, for example, pays for a 24-hour hotline, staffed with Kaiser employees, that W-2 participants can call if they have run into an emergency that might prevent them from working the next day. Hotline workers then provide whatever assistance is needed to stabilize the family and keep the W-2 client working — a motel voucher, child care, or alternate transportation.³⁴

The Maximus Corporation has committed to apply any profits above the initial seven percent to training for W-2 participants.³⁵ Such profits otherwise could have gone to shareholders.

Though W-2 regulations allow it to do so, Employment Solutions has pledged not to cut anyone off of cash assistance until March of 1998, when such assistance must be ended. The agency also has paid for tax experts to train its staff in the recovery of unclaimed Earned Income Tax Credit benefits from previous years.³⁶ Though this puts extra money in the pockets of W-2 clients, it takes it out of Employment Solutions coffers.

Curtis and Associates, having had tremendous success in finding jobs for unemployed W-2 participants in Waukesha County, has turned its attention and resources to finding better, higher-paying jobs with better benefits for the working poor who already are employed.³⁷ W-2 does not require the company to do this, nor does it reward it financially for doing so.

Each private W-2 agency can cite examples of time-consuming, expensive services and practices such as these that take money directly from its bottom line, but that it offers anyway. It is hard to reconcile this finding with critics' concerns that these organizations are motivated more by money than by service.

Yet, even if money were the driving force behind their administration of W-2, it would be foolish for agencies to place unprepared workers with an employer in order to avoid training costs. The employer would recognize the worker's deficiencies immediately and return the W-2 client to the agency. The agency then would have to bear training costs anyway, and would find the employer unwilling to accept referrals from that agency in the future.

Even if money were the driving force behind their administration of W-2, it would be foolish for agencies to place unprepared workers with an employer to avoid training costs.

* * *

If critics have been vocal in their concerns about the consequences of privatization and performance contracting, advocates have been just as emphatic in their support. The basic brief for privatization runs as follows:

Freed from rigid civil service and procurement rules, companies say they can provide bonuses to employees who meet productivity goals, fire poor performers, move workers into new tasks quickly, and buy new technology without red tape.³⁸

In practice, this should mean two things: a) cost savings to the state; and b) a more flexible and efficient approach to the provision of program services.

Cost savings

Is the state saving money by having non-public entities administer W-2 for most of the state's caseload? In its Request for Proposals to prospective W-2 bidders, the state specified the maximum dollar amounts bidders could request in each geographic area to fund operation of W-2 over the program's first 28 months. Bidders were free to bid less than the maximum amount, however. If they did, that was taken into consideration in assessing their bid. But counties that earned and exercised the right of first selection were automatically granted the maximum amount. Thus, in counties in which W-2 administration was open to competitive bidding, it is possible to calculate the difference between what the state is paying the winning W-2 agency and how much it would have had to pay the county in the same geographic region, had it earned and exercised the right of first selection.

Over the first 28 months of program operation, the state is paying the private W-2 agencies about \$10.3 million less than it would have paid the counties if they had run the program in the same areas. In some counties — Douglas, Green Lake, Shawano, Walworth, and Waukesha — there are no cost savings to the state at all; that is, the state is paying the W-2 agent the maximum amount specified in the RFP. The same is true in Milwaukee Regions 1 and 3. In the remaining counties and regions that were competitively bid, however, the state is saving a little more than \$10 million over 28 months. The cost savings are calculated in Table 1.

The \$10.3 million figure should be taken as a lower limit on cost savings to the state due to competition/privatiza-

TABLE 1			
W-2 Cost Savings Under Competitive Bidding³⁹			
County	RFP Maximum Allowable Bid	Contract Amount	Cost Savings
Vilas	\$1,111,459	\$1,109,000	\$2,459
Kewaunee	\$967,573	\$964,000	\$3,573
Forest	\$1,493,634	\$1,199,138	\$294,496
Oneida	\$2,976,228	\$2,972,000	\$4,228
Juneau	\$2,452,245	\$2,451,600	\$645
Milwaukee 2	\$55,010,619	\$51,011,200	\$3,999,419
Milwaukee 4, 5	\$115,696,017	\$110,770,525	\$4,925,492
Milwaukee 6	\$58,682,678	\$57,644,008	\$1,038,670
TOTAL SAVINGS			\$10,268,982

tion. By requiring counties to earn the right of first selection or face open bidding, the state undoubtedly saved millions of dollars by moving families off of AFDC and into work who otherwise would not have left the rolls as quickly. Furthermore, under the contract formula, the state stands to get a “rebate” of 45% of any savings on the contract over and above the initial seven percent that contractors may keep as profit.

Flexibility and efficiency

In interviews with W-2 agency representatives, the author asked why it mattered that they, and not the county, were administering W-2 in their geographic region. What advantages did they think they had over the counties in administering W-2?

Several of the respondents focused on the freedom they enjoyed from union and civil-service rules. According to one agency representative, who asked not to be identified:

It's easier for us to align our organization with the needs of the program. We have no union issues, for example. The unions negotiate some fairly rigid parameters when it comes to what their people can do. They like to be very specific as far as training requirements, scheduling people for certain hours, limiting the possibilities for reassigning someone to a new job, and so forth. We don't have those kinds of problems.

William Martin of Employment Solutions of Milwaukee offered a slightly different perspective:

Several of the private agency heads focused on the freedom they enjoyed from union and civil-service rules.

We have flexibility in hiring and compensation. On compensation, for example, we can pay people on the basis of merit and performance. If someone's better at getting people into jobs, then they're rewarded for that. If someone's better at ensuring job retention, we reward them for that, too. The county can't do this because of civil service requirements that define everyone's rate of pay. We also have more flexibility in hiring. The county has to hire people for defined positions. The duties and responsibilities

are specified beforehand, and they have to hire someone to fill that slot, basically. We can go out looking for skill sets we're after and hire people who have the skills we want, whether or not they fit into some box.

Tina Koehn of UMOS echoed these sentiments:

We're not a union agency, so hiring and firing people is quicker and easier. We can shift our staff around much more easily than the county. We're more flexible in that respect. We can have overtime and off hours, for example. Or if we want a bilingual worker, we can just hire someone who speaks Spanish and English. But with the county, a bilingual employee has a different pay grade and a different job classification. It's a different job with differently defined functions.

Another factor mentioned by a number of the agency representatives was the relative speed with which private entities could act on various decisions. According to Steve Perales of Maximus:

We've got an advantage over the counties in terms of speed. We can make our decisions quicker — getting office space, buying equipment, hiring staff, whatever. Government agencies take forever to do this stuff. It's a bureaucracy, and any time you want to do anything, there are several steps you have to take, each of which has to be approved.

Perales can claim some knowledge of such issues, having previously worked for the State of Wisconsin. Gary Rudzianis of Curtis and Associates had a similar claim, having worked for Waukesha County before joining Curtis:

We're faster moving. We can make decisions in a day that might take legislative action by the county. On procurement decisions, for example, we don't have to get approval or have the thing inserted in the county budget, we just do it. In all of the decisions we make, there just aren't a lot of regulations we have to follow.

Representatives of some of the private agencies also believed that they were free from the bureaucratic culture plaguing some county offices. This issue arose when respondents discussed their experience in dealing with county workers who were co-located in their offices and were administering the Food Stamp and Medicaid programs.

George Leutermann of Maximus:

We're still learning to work together. There clearly are some corporate culture differences. They've had 30 or 40 years of training, the focus of which was not necessarily being customer-friendly. And believe me, I know — I used to run the JOBS program in Kenosha, and I know exactly how these people are trained. There's still something of a herd mentality at work. So we're working to move people out of that pattern.

William Martin of Employment Solutions:

Some of [the county workers] are excited about an entrepreneurial environment, but some others have been captured by process. They've lost their way in terms of focusing on outcomes rather than process. They know their roles, but they can't necessarily learn to shift their focus to what it takes to produce desired outcomes. The county people aren't necessarily trained for this sort of thing — for team-building, for stress management, for creative problem-solving, and for a more entrepreneurial approach.

Steve Perales of Maximus, while not discussing county workers directly, echoed some of William Martin's comments on the "process culture":

Private entities focus on outcomes, and public entities focus on process. Bureaucracies focus on process. You're safe in a bureaucracy if you stick to an appropriate process. In private entities there is a much deeper focus on outcomes.

For every respondent who expressed concerns about county workers and the culture they bring with them, there was at least one other respondent who said that their experience with county workers had been generally positive.

It is worth noting, however, that for every respondent who expressed concerns about county workers and the culture they bring with them, there was at least one other respondent who said that their experience with county workers had been generally positive. And though virtually all respondents cited some difficulties in integrating their own employees with those from the county, none thought those problems permanent or insurmountable. Most attributed them simply to the growing pains of a new program.

A number of respondents also cited advantages they enjoyed as private entities that are not easily lumped into categories. Doris Green of OIC, for example, cited her group's status as a community-based organization:

Our main advantage is that we're community-based. We've been working with this population for 25 years. We care about the community, and we're sensitive to some of the issues that are a problem for people moving into work — alcohol, drugs, a problem child, not having heat, these kinds of things. We know this population, and we know their special problems. We know the kinds of things that get in the way of success, and we know how to deal with them. The county, on the other hand, can just say, "That's not our concern, really. We're here to make sure you stick to the program requirements." They don't have the same kind of relationship with the participants that we do.

Gary Rudzianis of Curtis and Associates discussed his organization's ample information resources, a product of its nationwide experience:

We have a national expertise in a wide variety of areas related to welfare and work. So I've got a number of resources at my fingertips. I can tap people all over the country with different areas of expertise, all of them working for Curtis.

And George Leutermann of Maximus offered this insight:

States and counties have to worry about the politics of the decisions they make. They have to worry about whether they're offending important political constituencies. They're going to hear from the politicians if they do. We don't have to worry about that as much because we're not a public entity. We can focus on getting the job done.

Of course, private agencies acknowledge some disadvantages relative to the counties, but most of these have to do with the relatively high start-up costs of taking on a brand new program. Julia Taylor of YW Works, for example, said, "we don't have the in-depth knowledge of state regulations and of the computer system that county workers do. They've been doing this forever, after all." But such problems likely will evaporate over time, and are in no sense intrinsic to private entities.

IX. CONCLUSION

Since W-2 was proposed in 1995, most of the attention it has garnered has fallen on the universal work requirement and the program's time limits. Those are dramatic changes indeed, but no more so than the changes in administrative structure W-2 has brought about since the days of the AFDC and JOBS programs. Those administrative changes are important primarily because of their capacity to improve program performance and insulate taxpayers from excessive costs:

Cost savings

According to the calculations above, the state is saving at least \$10.25 million over the first two years of W-2 as a result of competition and privatization. When one includes savings from declining caseloads under the right-of-first-selection criteria, and the possibility of a 45% rebate to the state on provider profits over seven percent, the cost savings appear even greater.

Aside from holding down costs, privatization helps insulate taxpayers in two other ways. First, the for-profit companies administering W-2 will pay state taxes on any profits they earn. Public entities will not. Second, in the event of cost overruns, private entities have no recourse but to make up those costs from corporate resources. Public entities can and probably will turn to taxpayers to cover any such overruns.

Flexibility and efficiency

Under W-2, the demands of participants and employers can change from day to day, requiring that W-2 agents change with them, and do so quickly. According to George Leutermann of Maximus:

We're constantly changing our strategy as the population changes. When we first started we had a lot of people that were ready to go to work. And so we had one approach for those people. But now we're getting down to people who maybe are less prepared for work, and so we're changing our focus — we're getting more into focusing on retention, and more on upgrading people's skill levels to be sure they're attractive to employers. We have to make changes like this constantly as our population changes and as employers change what they're looking for. I always tell people that our program here is a work in progress. That can be a source of frustration for our employees. They get comfortable doing things one way, and then we come in and tell them, "It's time to make some changes." They sometimes will say, "But we've been doing great; if it ain't broke," And then I have to tell them, "Well, it'll be broke soon enough."

With providers learning on the fly as they are, they need maximum flexibility and speed to offer top-notch service. If the private vendors themselves are to be believed, freedom from civil service rules and union contracts gives them much greater leeway in defining and redefining the ways in which their employees can serve program participants. Furthermore, a less pervasive bureaucratic culture allows them to make decisions, to change policies, and, put simply, to get things done, with greater dispatch than the typical public agency. Such speed and flexibility surely will prove important to the success of a program most everyone calls "a work in progress."

Producing results

Under W-2, the state has made a transition from a public assistance system organized around process — following state and federally mandated rules, practices, and procedures — to one organized around outcomes. The measure of success under W-2 is not process, but performance.

W-2 encourages top performance by vendors in a number of different ways. First, the counties administering W-2 had to earn the right to do so by meeting stringent performance criteria. This ensures that only top-performing public entities are involved in the program. Second, W-2 contracts expire at the end of 1999. Providers know that if they perform poorly in the meantime, they will not be asked back. When AFDC was still in place, on the other hand, county employees had every reason to believe that they would run the program forever, no matter their performance. Finally, the W-2 agency contract encourages performance in two ways. It links provider compensation to the state's desired outcomes. This overturns completely the prior system of payment based on process — as long as the counties were providing clients with money and services, the state was there with a check. The contract also allows the providers to run W-2 largely as they see fit, thereby focusing their energies on the desired outcomes, not on mandated inputs. Again, this is a sharp change from the way income maintenance programs were organized in Wisconsin in the past. If the JOBS performance contracting experiment in Milwaukee and the rest of the state between 1994 and 1997 is any guide, these changes should boost provider performance dramatically.

There is no longer a public employee entitlement to run public assistance programs, and vendors that want to earn and keep agency contracts — and make money from them — must meet fairly stringent performance standards.

Of course, involving private vendors in W-2 and linking vendor compensation to performance are changes that also have the potential to produce some negative consequences. Critics worry mainly about job loss to public employees and the quality of service to clients. But neither of these appears to have been a problem thus far. First, not a single state employee has lost a job as a result of W-2's privatization efforts. Second, the private providers have a long, impressive track record in the field of welfare-to-work programs, and seem to be genuinely committed to client service.⁴⁰

Even if they were not, however, it would be foolish for private providers to break contract rules or offer an inferior grade of service. To do so would invite substantial state penalties and almost certainly ensure the non-renewal of their contracts when the current contract term is up. What's more, with the whole world watching W-2, providers who offer poor client services will destroy their chances to win contracts elsewhere. That could be devastating for companies like Maximus and Curtis and Associates. Finally, it will not take employers long to determine which providers are committed to placing qualified, job-ready employees and which are simply seeking to move people out the door as quickly as possible and bank the savings. Employers will refuse to deal with the latter class of providers, which ultimately will cut directly into those providers' bottom line. Offering a low grade of service to clients, therefore, would be self-defeating for private vendors.

All of this makes for a nice, if largely unreported story. Under W-2, the state has traded a philosophy of entitlement for one of individual responsibility. If W-2 participants want help, they must help themselves. There are few guarantees, but there are plenty of opportunities. The state has made very similar changes in program administration. There is no longer a public employee entitlement to run public assistance programs, and vendors that want to earn and keep agency contracts — and make money from them — must meet fairly stringent performance standards. Thus, if the state has begun to ask much more of those who benefit from public assistance programs, it also is asking a great deal more from those who run such programs.

NOTES

- 1 Author's calculation from state caseload data for counties with private W-2 vendors.
- 2 The discussion of the AFDC and JOBS programs is based on United States House of Representatives, Committee on Ways and Means, *1996 Green Book* (Washington, D.C.: Government Printing Office, 1996), Section 8.
- 3 See "The Complete JOBS Program Directory for Wisconsin," Wisconsin Department of Workforce Development, May 1996.
- 4 Except where otherwise indicated, the discussion in this section is based on an interview with Jason Turner on October 13, 1997. For the full citation for this and other interviews in this report, please see the appendix.
- 5 Interview, Richard Buschmann.
- 6 Jason Turner, "The Introduction of Performance Standards Into the Milwaukee JOBS Program," unpublished memorandum, Wisconsin Department of Health and Social Services, July 1994, p. 7.
- 7 Jason Turner, "Performance Contracting in Wisconsin," unpublished memorandum, Wisconsin Department of Health and Social Services, undated, p. 3.
- 8 Turner, "Performance Contracting," pp. 3-4.
- 9 Interview, Mark Hoover.
- 10 Turner, "Performance Contracting," p. 5.
- 11 Interviews, Turner (10/13/97), Christian, and Jean Rogers.
- 12 Interviews, Wagner, Kaye, Turner (10/13/97), Bush.
- 13 Interview, Turner (11/24/97).
- 14 Interview, Kaye.
- 15 Interview, Turner (11/24/97).
- 16 Jason Turner et al., "Wisconsin Works — Draft," Wisconsin Department of Health and Social Services, April 1995.
- 17 Interview, Turner (10/13/97).
- 18 Interview, Turner (11/24/97).
- 19 Author's calculation from state caseload data as of November, 1996.
- 20 *Wisconsin Statutes*, Section 49.143(1)(av).
- 21 Interview, Hoover.
- 22 Gretchen Schuldt, "Diliberti's proposal on W-2 greeted coolly," *Milwaukee Journal Sentinel* online, October 10, 1996, Section B, News.
- 23 The author reached this conclusion after interviewing County Executive F. Thomas Ament and Milwaukee County Supervisors Daniel Diliberti and Robert Krug.
- 24 Gretchen Schuldt, "Ament rejects county role as W-2 agency," *Milwaukee Journal Sentinel* online, November 15, 1996, Section B, News.
- 25 Gretchen Schuldt, "New W-2 role sought for county," *Milwaukee Journal Sentinel* online, November 8, 1996, Section B, News.
- 26 Ibid.
- 27 Interview, Charles Wright.
- 28 There were 11 counties for which the state accepted bids, but in two — Green Lake and Douglas — the county bid and won the W-2 contract.

The *Milwaukee Journal Sentinel* published a list of the successful and unsuccessful bidders in Milwaukee County. The Maximus Corporation bid on all six of the county's regions. Employment Solutions of Milwaukee (a subsidiary of Goodwill Industries), Curtis and Associates, and United Migrant Opportunity Services each bid on two regions. Opportunities Industrialization Center of Greater Milwaukee and YW Works each bid on one region. The discussion in the text identifies which of these bidders were successful in which regions. See Joel Dresang, "Virginia firm bids to provide services to all of county," *Milwaukee Journal Sentinel* online, November 19, 1996, Section B, News.

29 *Wisconsin Statutes*, Section 49.143(1)(ay).

30 Susan B. Garland, "A Rich New Business Called Poverty," *Business Week*, May 19, 1997, p. 132.

31 Interviews, Wagner, Christian.

32 "Wisconsin Works Implementation Contract," Wisconsin Department of Workforce Development, June 30, 1997.

33 In Shawano County, the private agency running W-2 is a consortium of the county social services department, the state Job Service, and Forward Service Corporation. Because the primary members in this coalition are public entities, critics' concerns about quality of service being offered by private entities are not really relevant.

34 Interview, Peter Kaiser.

35 Interview, George Leutermann.

36 Interview, William Martin.

37 Interview, Gary Rudzianis.

38 Garland, "A Rich New Business," p. 134.

39 Source for Table 1: author's calculations from "Request for Proposals (RFP) to Administer Wisconsin Works," Wisconsin Department of Workforce Development, August 1996, pp. 94-102D; W-2 RFP Addendum No. 1; and unpublished contract data from the Department of Workforce Development.

40 The Maximus Corporation, W-2 agent in Milwaukee's Region 6, has been charged with failures to serve clients by Legal Action of Wisconsin. Though most of the allegations have been unresolved as of this writing, Maximus has acknowledged inadvertently declaring about 125 W-2 participants job-ready who instead should have been placed in community service jobs. See Joel Dresang, "State to check alleged W-2 flaws," *Milwaukee Journal Sentinel*, December 13, 1997, p. B1.

APPENDIX: INTERVIEWS, ALPHABETICAL BY INTERVIEW SUBJECT

Not all interviews conducted for this report are listed here. In some cases, interviews were used to gather background information that does not appear in the report. In other cases, interview materials were used in the report, but interview subjects asked not to be identified.

Ament, F. Thomas. Milwaukee County Executive. October 9, 1997.

Arteaga, Jose. Team Champion, Maximus Corporation. November 24, 1997.

Buschmann, Richard. Employment and Support Services Bureau Manager, Milwaukee County Department of Human Services. October 17, 1997.

Bush, Andrew. Research Fellow, Hudson Institute. October 24, 1997.

Christian, Shannon. Special Assistant to the Secretary, Wisconsin Department of Workforce Development. October 3, 1997.

Christiansen, Marcia. Chief Program Officer, Forward Service Corporation. November 19, 1997.

Diliberti, Daniel. Milwaukee County Supervisor. October 10, 1997.

Green, Doris. Director of W-2 Operations, Opportunities Industrialization Center. November 13, 1997.

Hollmon, Ralph. President and CEO, Milwaukee Private Industry Council. October 1, 1993.

Hoover, Mark. Former Director, Bureau of Management and Operations, Wisconsin Department of Workforce Development. November 10, 1997.

Kaiser, Peter. President, The Kaiser Group, Inc. November 5, 1997.

Kaye, Laura Kallin. Research Fellow, Hudson Institute. October 7, 1997.

Koehn, Tina. W-2 Administrator, United Migrant Opportunity Services. October 30, 1997.

Krug, Robert. Milwaukee County Supervisor. October 1, 1997.

Leutermann, George. Vice President, Maximus Corporation. November 14, 1997.

Martin, William. Executive Director, Employment Solutions of Milwaukee. November 13, 1997.

Perales, Steve. W-2 Program Director, Maximus Corporation. October 27, 1997.

Pierce, Teresa. W-2 Manager, Western Wisconsin Private Industry Council. November 6, 1997.

Quindel, Roger. Milwaukee County Supervisor. October 1, 1997.

Rogers, J. Jean. Administrator, Division of Economic Support, Wisconsin Department of Workforce Development. October 28, 1997.

Rudzianis, Gary. W-2 Program Director, Curtis and Associates. October 30, 1997.

Stafford, Joseph. Director, Bureau of Employment and Program Operations, Wisconsin Department of Workforce Development. October 3, 1997, and October 22, 1997.

Taylor, Julia. Chief Executive Officer, YW Works. November 10, 1997.

Turner, Jason. Executive Director, Center for Self Sufficiency. October 13, 1997, and November 24, 1997.

Wagner, John. Director, Family Services Unit, Executive Office of Health and Human Services, Commonwealth of Massachusetts. September 30, 1997.

White, James. Milwaukee County Supervisor. September 30, 1997.

Wright, Charles. Chairman/CEO, Fall River Group, Inc. October 2, 1997.

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