

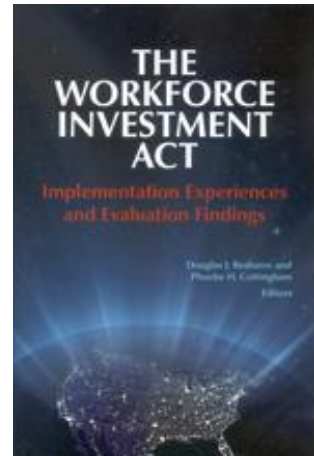


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Implementation Experiences and Evaluation Findings

Douglas J. Besharov
Phoebe H. Cottingham
Editors

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Financial Performance Incentives

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High performance incentive grants were incorporated into a number of domestic federal programs in the 1990s. Section 503 of WIA authorizes the Secretary of Labor to award incentive grants to states that exceed performance levels for programs authorized by Title I of WIA, the Adult Education and Family Literacy Act (AEFLA), and the Carl D. Perkins Vocational and Technical Education Act (Perkins). The WIA incentive process was designed with the intent to reward “good” performance by state government programs implementing workforce investment, adult literacy, and vocational education programs.

Financial incentives based on program performance also appeared in a number of other federal government programs around the same time. Domestic social programs such as Temporary Assistance for Needy Families (TANF) and the Food Stamp Program (FSP, since the beginning of the 2009 fiscal year called Supplemental Nutrition Assistance Program, or SNAP) have also used financial incentives to attempt to improve program performance. However, there is growing evidence that incentives may in some instances actually harm performance by rewarding behaviors that result from programs being more focused on receiving the reward than improving program design, delivery, and outcomes. Incentive programs raise many issues, including choice of how large funding should be and possible conflict between the use of bonuses and the ethos of public service.

This chapter examines high performance bonuses (HPBs) in WIA, TANF, and FSP/SNAP. It examines the design of the HPB programs, the issues that they raise, and lessons that have been learned from the

experience of implementing and operating them. The chapter concludes that the HPBs have not worked as intended and that a different approach improving program performance should be used in the future for both the WIA program and TANF. On balance, the FSP/SNAP program looks better, but the objectives of the program make it easier to conduct.

WIA HPBs

WIA is a federal–state program.¹ The federal government provides grants to states to operate the programs, and the states pass most of these funds to local workforce investment boards. Workforce services are provided by about 3,000 One-Stop Career Centers that are located throughout the country. WIA programs provide core, intensive, and training services. Services may include job matching, labor market information, assessment and counseling, and other job search services, as well as training services. While all workers can receive core services, state workforce agencies determine which workers to serve beyond the core services and the mix of services target groups are to receive.

The WIA program was enacted for five years and expired in 2003. Since that time the program has been continued by Congress through the appropriation process. Unsuccessful proposals to reauthorize the program were introduced in 2003, 2005, and 2007. The program seems unlikely to be reauthorized before 2011 or 2012.

The Program

HPBs have been offered since the inception of the WIA system. States can receive bonuses for amounts between \$750,000 and \$3 million per year if they meet the WIA HPB criteria, depending on fund availability. The potential bonuses are of the same amount, regardless of the size of the state. To receive an HPB, a state must achieve at least 80 percent of the annual negotiated target for each of the 17 WIA performance measures that are specified by statute. They must also achieve an average of at least 100 percent of the negotiated performance targets for the major performance measures groupings for adult, dislocated worker, youth, and customer satisfaction measures.

The WIA program makes financial incentives available as a way to reward performance that exceeds the expected level of negotiated performance for participants in Title 1B of the WIA Adult, Dislocated Worker, and Youth programs. WIA law authorizes the states to use their incentive bonuses to carry out an innovative program consistent with the requirements of any one or more of the programs within Title I of WIA, the Adult Education and Family Literacy Act, or the Perkins Act. These provisions allow states great flexibility in using these funds, and the governors and state agencies are not limited to only one type of innovative program. States find this money attractive because it not only recognizes them for exceeding negotiated performance goals but also provides funds for special projects that might not otherwise be implemented due to budget limitations.

WIA financial incentives are complicated because they are a reward for meeting conditions for three separate programs. The annual awards are determined on the basis of WIA program performance in conjunction with performance for the Adult Education and Family Literacy Act and the Carl D. Perkins Vocational and Technical Education Act programs. States must meet the criteria established by each individual program before they are deemed eligible to apply for a grant. A state may demonstrate outstanding performance under WIA requirements but be removed from consideration for an award because it falls short with respect to program performance for literacy and/or Perkins education programs.

WIA HPBs are given for exceeding performance targets, which are set by negotiations led by USDOL regional office staff in the six USDOL regional offices for the USDOL national office. Regional staff members negotiate targets with the states based on factors that are considered to be under their control. If a state has higher unemployment levels or serves a more disadvantaged population, however, its performance targets should be adjusted downward to accommodate for these factors outside of their control. The negotiation process is intended to “level the playing field” between states, so that adjustments are made for differences between states with respect to anticipated economic and demographic characteristics.

Issues

Experience with the WIA HPB has drawn attention to a number of issues.

Behavioral issues in responding to WIA performance targets.

Barnow and Smith (2004) review the incentives to state workforce agencies and local WIBs to take actions that can improve their WIA performance measurement results. Barnow and Smith examine four substantive behavioral measures that the WIA system can take:

- 1) selection of participants who are likely to have good performance outcomes (cream skimming),
- 2) selection of services and service mix provided to improve performance,
- 3) encouragement of workforce agency employees to work harder and smarter, and
- 4) provision of incentives to contractors and subcontractors providing services.

In addition, state workforce agencies can make strategic decisions about how to improve performance by “gaming” the system. In particular, under both JTPA and WIA, local and state performance outcomes could be improved by making determinations about who is formally enrolled in the program, and how and when enrollees are exited out of the program. For example, formal enrollment can be delayed until workers are placed in jobs or become employed. Exiting workers out of the program can be accelerated or delayed to maximize performance outcomes (Barnow and Smith 2004).

Jacobson (2009) documents the high cost of retaining WIA program participants in some localities until a time when their exiting is most beneficial for workforce agency performance measurement purposes. The cost of this extended retention of participants is the time it takes program staff to maintain periodic telephone contact with the WIA participants rather than providing them with additional employment services and, secondarily, that this behavior continues solely to improve measured program performance outcomes.

Thus, it appears that state workforce agencies have many tools at their disposal to improve their measured WIA program performance, if

they wish to make use of them. A number of state workforce agencies and local WIBs do make use of these techniques.

Incentives for states. While the WIA HPBs are a small proportion of total WIA resources available to states, the incentive for states varies greatly because each state is eligible for the same bonus amount. Small states will find the HPB to be much larger in proportion to their state WIA formula grant than is the case for larger states.

Accuracy of the HPB data. Heinrich (2007) assesses whether the current HPBs work by looking at two questions. First, she examines the accuracy of the data used for the measures. Second, she assesses whether the performance award system properly recognizes and rewards high performing states. With respect to the first issue, her answer is affirmative: she finds that the data used by the system are reasonably accurate.

Does the HPB properly reward high performing states? With respect to the issue of whether the system properly recognizes high performers, Heinrich (2007) provides a negative answer for a number of reasons. As we saw above, a core factor in establishing an objective WIA performance targeting system is that the targets need to be set to establish a level playing field between states. Not surprisingly, she finds that the negotiation process—determined by USDOL regional staff without an objective methodology—does not properly take into consideration economic and demographic characteristics and service mix as they differ between states. In particular, she finds no adjustment to performance targets for differences with respect to education and race.

Heinrich finds that the negotiation process between regional and state staff establishes the bonus threshold and therefore plays a key role in the outcomes of HPBs. States that negotiate higher performance targets relative to other states are less likely to receive the bonuses. Thus, the negotiation process is crucial to success in obtaining an HPB.

Heinrich also looks at whether there has been a relationship between performance and the size of the bonus awarded. She again reaches a negative conclusion. She finds that some states not receiving a bonus appear to have performed better than those that did. States receiving higher bonuses did not necessarily perform better than those receiving low bonuses.

Declining Funding of WIA Incentive Grants, 1999–2007

The statutory provisions for the WIA HPB have not changed over time, so the HPB program specifications have been unchanged for over a decade. The only change in the program has been its funding amount. Because the USDOL has not sought appropriations for the HPB beginning in federal FY 2004 for federal PY 2003, funding availability has declined and has derived only from the Adult Education and Family Literacy Act and the Carl D. Perkins Vocational and Technical Education Act programs.

The USDOL started awarding incentive grants in 1999. The size of the grant awards is determined by WIA Section 503(c)(1), which sets the range of incentive grant awards from \$750,000 to \$3 million, depending upon the amount of appropriated funds available. If the amount available for grants is insufficient to award the minimum grant to each eligible state, the minimum and maximum grant amounts are adjusted by a uniform percentage as required by WIA Section 503(c)(2). For PY 1999 through PY 2002, the Department of Labor requested and received funding for the incentive grants, and state workforce agencies received funding from the department.

In its FY 2004 budget request, the USDOL did not request funds for WIA incentives. The Bush administration proposed revisions to the incentive grant process as part of its unsuccessful WIA reauthorization proposal of 2003. Had they been enacted, the new incentive grants awarded by the secretary would have been based on performance for statewide and local workforce programs authorized by Title I-B of WIA. The secretary would base the award on performance of states with respect to the performance measures, and/or the performance of the state in serving special populations (which could include the level of service and the outcomes and other appropriate factors).

In its FY 2005 budget submission, the USDOL requested \$12 million to be awarded to states that successfully addressed barriers to employment of special populations (e.g., those with disabilities, individuals with limited English proficiency, homeless individuals, veterans, older Americans, and participants transitioning from welfare to work) and placed these individuals into good jobs. The department, however, did not propose a quantifiable way to measure delivery of services to

these populations. The OMB denied the request for FY 2005 funds, and the USDOL has not requested incentive funds since then.

For PY 2006 only the Adult Education program provided funds for incentives. However, states were still required to meet the criteria established by all three programs in order to qualify. Thus, the amount of money available for incentives has been drastically reduced from a high of \$29.8 million in 2001 to \$9.8 million in FY 2007. The amount of the incentive grant for the PY 2006 performance awards was based on the size of the state's programs, as measured by the state's relative share of the combined Title I, AEFLA, and Perkins III formula grants awarded to that state.

For PY 2007, the Adult Education program was again the sole contributor to state incentive grants amid some changes to performance management and at a slightly lower funding level. In 2007, the Labor Department revised performance measurement requirements for determining eligibility of states for receiving incentive grants. In addition to changes to WIA performance reporting, the 2007 reauthorization of the Perkins Act removed the requirement that funds be reserved for WIA performance bonuses. Therefore, the Department of Education no longer sets aside Perkins Act funds for the purpose of funding incentive grants to states. The remaining funding is provided only by the Adult Education program, and 11 states were awarded incentive grants for a total of \$9.76 million in 2007.

For PY 2008, USDOL guidance was issued based on state-negotiated performance levels that would have had an impact on states' eligibility to qualify for incentive grants. The Labor Department continued to facilitate the grant review and award process, and the Office of Adult Vocational Education within the Department of Education continued to fund these grants. In PY 2008, 10 states were awarded incentive grants, for a total of \$9.76 million.

Variation in State and Regional Receipt of the WIA HPBs

The receipt of WIA financial incentives varies widely by state and by region (see Table 10.1). The variation is so great that it points toward exogenous influences on program performance such as fluctuations in economic conditions or changes in the demographics of state and local participants. These wide swings in program performance relative to

Table 10.1 WIA High Performance Bonuses: Eligible States and Funding Levels, PY 1999–2008

Program year/number of states eligible	Amount of incentive money available	Bonus range	Eligible states
1999/6	\$10,084,000 \$2M from the USDOL \$8.1M from the Dept. of Education	\$843,351–\$2,645,125	Florida, Indiana, Kentucky, Texas, Utah, Vermont
2000/12	\$27,580,600 \$12M from the USDOL \$15.5 M from the Dept. of Education	\$750,000–\$3,000,000	Connecticut, Florida, Idaho, Illinois, Indiana, Kentucky, Maine, Massachusetts, Michigan, North Dakota, Texas, Wisconsin
2001/16	\$29,760,422 \$13.2M from the USDOL \$16.5 M from the Dept. of Education	\$750,000–\$3,000,000	Colorado, Florida, Illinois, Kentucky, Louisiana, Maryland, Montana, Nebraska, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Washington, Wyoming
2002/23	\$24,422,000 \$7.9M from the Dept. of Education \$16.9M from the Dept. of Education	\$750,000–\$3,000,000	Alabama, Colorado, Florida, Georgia, Iowa, Illinois, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Missouri, Mississippi, Montana, North Carolina, North Dakota, Nebraska, New Hampshire, Oklahoma, Oregon, South Dakota, Tennessee, Texas

2003/19	\$16,247,000 Funded by Dept. of Education (AEFLA & Perkins)	\$772,770–\$1,076,445	Alabama, Colorado, Delaware, Georgia, Iowa, Indiana, Louisiana, Maryland, Michigan, Minnesota, Missouri, Nebraska, Nevada, North Dakota, Oregon, Pennsylvania, South Carolina
2004/23	\$16,605,048 From the Dept. of Education (AEFLA & Perkins)	\$646,569–\$941,250	Arizona, Colorado, Connecticut, Delaware, Georgia, Illinois, Indiana, Iowa, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, West Virginia, Wisconsin
2005/10	\$16,353,187 From the Dept. of Education	\$912,966–\$3,000,000	Arizona, Delaware, Illinois, Iowa, Massachusetts, Missouri, Oregon, Tennessee, Virginia, Washington
2006/8	\$9,968,489 Funded by AEFLA only	\$821,995–\$2,148,397	Arizona, Connecticut, Illinois, Missouri, Montana, Ohio, South Carolina, South Dakota
2007/11	\$9,760,451 Funded by AEFLA only— no longer funded through the Carl D. Perkins Act	\$761,088–\$1,099,410	Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Minnesota, New York, North Carolina, Ohio, South Dakota
2008/10	\$9,760,450 Funded by AEFLA only	\$784,251–\$1,405,909	Colorado, Connecticut, Illinois, Iowa, Kentucky, Minnesota, Missouri, Nebraska, New York, Tennessee

annual targets could be minimized through objective methods of target setting accounting for external factors.

There has been a strong concentration in the distribution of incentive grants by state and region during the PY 1999 through PY 2007 period. During those nine years, states have been eligible for incentive awards 125 times. Five states in three regions were eligible for (and received) an incentive award five or more times since PY 1999 (see Table 10.2).

Thus, these 5 states have collectively received 31 awards, or nearly 25 percent of all awards. On the other hand, 9 states received no awards (Alaska, Arkansas, California, the District of Columbia, Hawaii, New Jersey, New Mexico, Puerto Rico, and Rhode Island), and 12 states have received only one award (Idaho, Kansas, Maine, New Hampshire, Nevada, New York, Pennsylvania, Utah, Virginia, Vermont, West Virginia, and Wyoming) through 2007.

There have been large differences among USDOL regions with respect to award eligibility. The 9 states in Region 1 (Connecticut, Massachusetts, Maine, New Hampshire, New Jersey, New York, Puerto Rico, Rhode Island, and Vermont) were eligible to receive 10 awards, or about 8 percent of all of the awards. At the other extreme, in Region 5 (Iowa, Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin), the 10 states were eligible for 37 awards, or about 30 percent of the total awards.

These regional variances, with awards concentrated heavily in some regions and not in others, suggest that there might be greater incentives or pressure in some regions for states to obtain awards than in others. As previously stated, there is no uniform method in place to adjust for differences among state economic and labor market environments, so when regions of states consistently achieve a significantly higher number of awards, there is a likelihood of strategic behavior in pursuit of these monetary awards.

Consequences

While establishing monetary incentive strategies was popular at the outset of the WIA program, this strategy has not proved to be an effective way to encourage exemplary performance. In fact, it may have resulted in reduced services to populations most in need.

Table 10.2 States Receiving the Largest Number of WIA High Performance Bonuses, 1999–2008

Region	State	Number of awards
5	Illinois	9
3	Kentucky	8
3	Florida	6
5	Iowa	6
4	North Dakota	5

Since the core performance measures of WIA are based on the ratio of the numbers of program participants who exit the program (“ex-itters”) who obtain and retain employment to those exiters who do not, the temptation to reduce the numbers of exiters who do not successfully gain employment is high. The risk of using a monetary bonus based on performance results is, therefore, that states will engage in manipulative reporting, or “gaming,” or even elect to serve those individuals with a high likelihood of success (creaming).

The relationship between WIA monetary incentives and the main-line WIA programs is weak. State plans providing information on the intended use of received bonuses indicate that incentive grant awards go toward new programs or increases in services rather than to individuals involved in frontline service. This proposed usage does not provide a direct incentive to individual frontline employees for providing exemplary or increasingly effective services, since these individuals do not receive any monetary return on their investment in improving services.

Thus, it is very possible that individual level service might be negatively impacted by offering monetary incentives for achieving performance goals. Providing monetary services without adjusting for the characteristics of the population served reduces the incentive to serve disadvantaged populations, whether measured by education, disability, or race/ethnicity.

As can be seen in Table 10.1, the annual awards have been declining over time. The number of states eligible for the awards has declined in recent years. The overall annual award amount also has been steadily diminishing since the beginning of the WIA program, and funding for these incentives has ceased altogether from the USDOL.

The WIA HPB continues despite lack of support from the Labor Department because the Adult Education Program continues to provide HPB funding. Though there has been no department funding since FY 2004, the USDOL continued to participate in the HPB process because of statutory requirements.

TANF HPB

The TANF program provides a minimum income for families with children. TANF was established in 1996 by the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) as a successor to the Aid to Families with Dependent Children (AFDC) program. The 1996 legislation identified one TANF goal as ending “the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.” To promote attainment of this end, the law authorized payment of bonuses to “high performing states based on a formula to be established by the Department of Health and Human Services” (DHHS) in consultation with the National Governors Association, the American Public Welfare Association (an organization largely representing state social service agency directors that is now called the American Public Human Services Association), and other interested parties. These HPBs were distributed by the DHHS to states for accomplishments from federal fiscal year 1998 through 2004. Funding for the program ceased in 2005.

Experience with the HPB offers a case study of a policy intended to provide positive incentives for local program operators to improve performance in pursuit of public objectives. The purpose of case studies is generally to gain insight into the myriad details that bedevil implementation of policy and to offer lessons of experience. To this end we provide an overview of the program and identify issues and lessons.

Our conclusion is that the indicators upon which the TANF HPB was based have numerous shortcomings and, possibly as a result, there is no evidence that the TANF HPB affected state policy or program effectiveness. However, the program leaves an institutional legacy that, while difficult to replicate elsewhere, may prove valuable as the current administration attempts to renew interest in social policy innovation.

The Program and Its Evolution

To understand the HPB, it is important to understand the federal context. TANF is a joint federal–state venture in which states design and operate their assistance programs under broad federal guidelines. Benefit levels are determined by states, as are many other eligibility conditions and compliance requirements. Funding is from a combination of a state’s own revenues and a fixed federal contribution determined largely by the amount the state received for AFDC during that program’s last years. In FY 2004 combined expenditure of federal and state funds for TANF amounted to \$25.8 billion, of which \$14.4 billion came from the federal government. Forty-seven percent of the total went for income support; the remainder was spent on services, including work supports for cash recipients and others meeting TANF-related need standards.

The HPB fiscal stakes were small. The bonuses averaged about \$200 million per year, less than 1 percent of total outlays. The program was voluntary, and no state was allowed to receive in any year an amount greater than 5 percent of its TANF block grant. Nevertheless, the program was evidently viewed by states as worth the effort required to compete. In the first year of competition, 46 states competed; 49 and 50 participated for FY 1999 and FY 2000, respectively, and thereafter generally 50 of the 51 states engaged.

As required by PRWORA, the HPB criteria were developed in consultation with the National Governors Association, the American Public Human Services Association, and a variety of other interested parties (DHHS 1999). The bonus awards for FYs 1998, 1999, and 2000 were based on four work measures: Job Entry, Success in the Labor Force (a measure based on employment retention and earnings gains), and improvement from the prior fiscal year in each of these measures. For each, the 10 states with the highest performance received awards. It was unusual for states to gain awards in all four categories, and therefore it was possible for more than 10 states to receive recognition on at least one dimension. The awards for FY 1998 went to 27 states (more than half of states entering the competition). Twenty-eight states won bonuses for performance in FY 1999, and 27 states did so in for FY 2000. States were not obligated to compete on all performance measures, but eventually most states chose to do so.

Over time, the program evolved. In 1999, the DHHS began efforts to expand the criteria used for awarding the HPB to include measures of state success in raising participation in support programs for working families and in promoting family formation and stability (DHHS 1999, p. 68202), which caused an increase in the numbers of indicators used. Beginning with the awards made for performance in FY 2001 and continuing through FY 2004, the bonus criteria included, in addition to the four employment-related measures, indicators for 1) participation of low-income working families in the FSP, 2) participation of former TANF recipients in the Medicaid program or in the State Children's Health Insurance Program (SCHIP), 3) a child care subsidy measure, and 4) a family formation and stability measure. Additionally, a quality component was added to the child care subsidy measure beginning in FY 2003.

Initially, states competing on work measures were required to collect, compile, and submit quarterly performance reports derived from earnings data reported by employers to state workforce agencies (SWAs) as part of the Unemployment Insurance system. SWA data cover only quarterly earnings and do not include hours of work, wage rates, or information on the monthly pattern of work within a quarter. Measures of Job Entry and the two components of Success in the Labor Force (job retention and earnings gain) were constructed from these data. Methods clearly varied, and the performance results submitted by states to the DHHS were not audited. The consequence was uncertainty about the reliability of state-reported achievements, which was further undermined by some exceptional accomplishments. One state won \$6 million in the initial round for achieving a job entry rate in FY 1998 of 88.4 percent, 3.4 standard deviations above the participating state mean of 42.6 percent. Significantly, the greatest variance in state performance was associated with the Job Entry rate, the measure that offered under DHHS instructions the greatest opportunity for variation in state interpretation, data sources, and computation procedures.

Beginning with FY 2001, federal policy changed. Instead of carrying out computations themselves, competing states were required to submit monthly lists of adult TANF recipients, identified only by their Social Security number. These data were then matched against the National Directory of New Hires (NDNH) maintained by the DHHS. The NDNH is also based on employer wage reports. NDNH data is

broader than what is available from state systems in that it includes federal employment and provides information on jobs held in one state by residents of another (in general state SWA data do not). Use of the NDNH leveled the information and computational playing field for the HPB employment measures.

Addition of the new performance categories required changes in the allocation of the \$200 million annual bonus among measures. However, the employment measures continued to account for about 70 percent of all bonus funds distributed. The additional categories increased the number of opportunities for winning a bonus from 4 to 10. When awards for FY 2001 and FY 2002 were announced in late September 2003, 46 states won some amount of bonus money. In the last report (for FY 2004), 42 states gained recognition in some category; 24 were recognized in 2 or more. The awards for FY 2004, the last performance year for awards, are summarized in Table 10.3.

The TANF program itself was reauthorized by the Deficit Reduction Act of 2005, but this legislation eliminated funding for the TANF HPB program. During the reauthorization debate, virtually no effort was made by either the states or the Bush administration to see the HPB program extended. Somewhat oddly, the DHHS is still required to calculate the basic HPB employment, Food Stamp, and employment measures for states that submit the necessary data. The child care and Medicaid measures have been dropped (although indicators for these programs have been developed in other contexts).

Issues

Implementation and operation of the HPB raised a number of issues common to all performance measure programs, including those coupled with fiscal incentives.

What to measure. At least at first blush, the HPB performance measures sound appropriate—surely job entry, success in the labor force, and family formation and stability sound like good things. However, as often happens, the details pose problems. Consider the Job Entry rate. Nominally this would seem to refer to the rate at which adults receiving TANF moved in some time period from unemployment to some standard of employment. Since the NDNH data record only

Table 10.3 TANF High Performance Bonus Categories and Awards, FY 2004

Component	Indicator definition	Source	U.S. average (%)	Best performing state	Best state score	Award (\$, millions)	Total awards (\$, millions)
Success in the labor force							
2004 levels							
Job entry	Ratio of measure of recipients entering employment to total unemployed recipients (%)	NDNH ^a	34.9	Virginia	46.7%	7.3	48.1
Job retention	Proportion of currently employed recipients with earnings in first and second subsequent quarters (%)	NDNH	59.0	Hawaii	72.2%	n/a ^b	n/a
Earnings gain	Increase in aggregate earnings between current, second following quarter, currently employed recipients (%)	NDNH	36.9	South Dakota	81.4%	n/a	n/a
Success in labor force	Average rank on job retention and earnings gain measures	Calculated	n/a	Wyoming	1(rank)	0.4	36.9
2003–2004 change							
Job entry	Change in Job entry rate ($\Delta\%$)	Calculated	1.2	Virginia	8.2%	0.7	29.5
Job retention	Change in Job Retention Rate ($\Delta\%$)	Calculated	-0.5	Louisiana	12.4%	n/a	n/a
Earnings gain	Change in Earnings Gain Rate ($\Delta\%$)	Calculated	4.3	Georgia	31.4%	n/a	n/a
Success in labor force	Change in average rank on Job Retention and Earnings Gain measures		n/a	Georgia	1(rank)	4.0	22.2

Supporting services

2004 levels

Medicaid/SCHIP enrollment	Proportion of TANF leavers who retain enrollment in Medicaid/SCHIP for at least four months (%)	State reports	77.5	Pennsylvania	96.0%	4.7	6.3
Food Stamps	Proportion of low-income working households with children under 18 participating in Food Stamp Program (%)	Census Bureau	37.4	Maine	61.7%	3.0	6.3
Child care subsidies	Measure (with quality adjustment) of proportion of eligible children served under state's federally funded child care program (%)	State reports	n/a	Rhode Island	1(rank)	0.2	10.6

2003–2004 change

Medicaid/SCHIP enrollment	Change in Medicaid/SCHIP Enrollment Rate ($\Delta\%$)	Calculated	n/a	New Hampshire	7.3%	1.1	14.8
Food Stamps	Change in FSP Participation Rate ($\Delta\%$)	Census Bureau	2.3	Delaware	12.6%	0.3	14.8

Family formation and stability

Children living with both (married) parents	Change in proportion of children under 18 residing in married family couple groups ($\Delta\%$)	Census Bureau	-0.1	Arizona	5.1%	0.3	10.6
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(continued)

Table 10.3 (continued)

Component	Indicator definition	Source	U.S. average (%)	Best performing state	Best state score	Award (\$, millions)	Total awards (\$, millions)
Family formation and stability							
Total high performance bonus (\$, millions)							200.0

NOTES: ^aNational Directory of New Hires. ^bn/a = Measure not applicable.

SOURCE: Administration for Children and Families (2009), Appendix 5. Indicator descriptions are paraphrased and corrected for errors in the source.

quarterly earnings, identification of a job entry using the NDNH must be completed on the basis of variation in quarterly earnings. The Job Entry rate is a measure of the percentage of the number of unduplicated unemployed adult recipients who entered employment for the first time during the performance year (i.e., job entries). An adult is considered to have entered employment for the first time in a calendar quarter if he/she had no earnings in any of the prior quarters of the performance year (Administration for Children and Families 2009, Table 5.1). The formula is²

$$\frac{\text{Sum of job entries in quarters 1-4}}{\text{Unduplicated number of unemployed adult recipients in performance year}} \times 100.$$

It is easy to come up with scenarios in which people lose jobs, take up TANF, and are helped to find new employment, but never count in the data as a job entry using this formula. On the other end of the list of awarded outcomes (see Table 10.3), the measure actually used for “family formation and stability” was simply an estimate of the number of children under 18 residing in “married family couple groups” as a percentage of all children resident in a state. It is unclear why states should receive a *TANF* “high performance” bonus on this measure when TANF typically involves less than 5 percent of children at any point during the year.³

Control for context. No adjustment is made in any of the performance measures for variation in state economic and social environment. In particular, it seems likely that the ability of states to move unemployed recipients into jobs will be affected by local unemployment rates as well as the skills, education, and experience of the caseload. The DHHS initially argued that its own analysis suggested that “these specific factors do not determine entry rate to any significant degree” (DHHS 2000, p. 52843). Subsequent analysis, using NDNH data, suggests otherwise (Wiseman 2006).

At times, the DHHS argued that inclusion of measures of change compensated states in part that were disadvantaged by economic or social factors. Even when states could not outcompete others on levels of achievement, they presumably had a better chance in accomplishing improvement. The problem with change measures is that any year’s set

of changes is likely in part the consequence of random factors and, over time, some regression to the mean can be expected. The larger the state, the more likely it is that such factors cancel out and that year-over-year change includes less “noise.” Something of this phenomenon may be observed in the data: Winning states in the change-in-job-entry category tend to be smaller than those winning on the basis of current rates.

What is welfare about? Historically, social assistance systems have generally been intended first and foremost to alleviate need. Federal law does not set benefit levels, and as a result, there is exceptional interstate variation in the amount of TANF benefits. In 2004, a TANF recipient family of three received a monthly grant of \$786 in California and \$288 in Indiana. (About 30 percent of this disparity was offset by variation in Food Stamp benefits.) Yet both states received roughly the same HPB amount, and California received no credit for lifting dependent recipients much closer to the national poverty standard. Over the life of the HPB, the median state TANF benefit declined by 10 percent in real terms. It seems reasonable to argue that performance in employment promotion and across other dimensions should be evaluated in light of income support accomplishments.

Source of data. A virtue of the NDNH data is that they cover all adults and the universe of jobs outside of the shadow economy. There are no problems of statistical inference. The data for Medicaid/SCHIP come from the states’ own management information systems and also present no problems of statistical inference. However, the data on FSP participation, participation in subsidized child care, and children’s family environment are derived from sample surveys, notably the Current Population Survey (CPS). For all but the largest states the CPS sample is too small for reliable estimates of these measures, and the problems were compounded in estimation of year-to-year changes. Perhaps not surprisingly, the DHHS summary tables for measure achievement by state on these dimensions never include estimated standard errors or cautionary notation.

Both the NDNH and census-based data take a long time to accumulate. Typically, awards were announced almost a year after the last quarter included in the performance data. (The awards for FY 2004 were announced in October 2005.) The result is a substantial temporal

disconnect between the performance that was being rewarded and its actual identification.

How to respond. The nature of the TANF HPB indicators made it difficult for states to deliberately target the outcomes measured. However, some policies taken for other purposes appear to have influenced the HPB outcomes. The original TANF legislation included a federal requirement that states achieve certain target rates of participation of recipient adults in work-related activities. The impact of these targets was diminished because they were reduced in response to caseload decline and, for a variety of reasons, the total number of TANF cases fell by over 50 percent between FY 1996 and 2004. Nevertheless, some states took precautionary steps to reduce the challenge posed by the participation requirement. One strategy, sanctioned by regulations, was to create a Separate State Program (SSP) outside of TANF and wholly funded from state revenues. Persons difficult to engage in work because of disability or other problems were then served through these programs, and such expenditures were included in assessing state compliance with federal “maintenance of effort” regulations intended to sustain state contributions to the public assistance effort. Despite this selection, the TANF participation rate was calculated only for participants in federally subsidized TANF. Given that employability was generally a criterion for moving people to SSPs, introduction of such programs probably raised performance as measured by the employment-related indicators. In 2004, 32 states had SSPs, accounting for about 12.6 percent of all adult recipients. Wiseman (2006) presents evidence that, other things equal, states with SSPs had higher rates of job entry, suggesting some prizes were won by artful selection. However, the selection appears to have been motivated by the participation requirement, not the HPB competition.

Missing feedback. Performance assessment programs are generally intended not only to identify exceptional achievement but to provide feedback from assessment to improvement. The feedback occurs in at least three ways. The first is that the systems are generally intended to enhance the information available to operators. The TANF HPB program, based as it was on information not available to state and local-level program managers, did not do this for the key employment

indicators. The second is that such systems provide points of reference for judging accomplishment by comparison to peers. Given lack of adjustment in the HPB measures for factors likely to influence outcomes regardless of management strategy, caution would be essential in making cross-state comparisons using HPB data.

A third feedback dimension occurs at the national management level and is notably absent from later years of HPB operation. This is use of the data and experience to make improvements in the indicators and to seek better practice in TANF employment policy. After the shift to use of the NDNH and census data for performance assessment after 2000, no significant changes occurred in the choice of indicators or methods of measurement. Moreover, no systematic attempt was launched to determine the basis for success as flagged by the bonuses awarded. If policymakers believed that the HPB bonus system uncovered genuine managerial accomplishment, then it would have been reasonable to investigate what it was that the states flagged as "top 10" were doing that led to this accomplishment and whether and how the technique(s) might be transferred. No such efforts were mounted.

Consequences

Analysts have made no attempt to assess the effect of the presence of the HPB on the trajectory of TANF policy at the state level. There simply is no reasonable control against which performance and response to the HPB stimulus might be assessed. Managers appreciated the public acknowledgment that award announcement occasioned, and coming outside of state budget cycles, the prizes themselves in many cases provided flexible resources for special projects. But the reality was that bonuses were spread across 10 indicators, even the DHHS seemed confused about how they were defined (see Note 2), and payments turned not only on what any state accomplished, but also on unknown developments elsewhere. Under these circumstances, altering policy for the coming year in pursuit of a small award to be obtained more than two years in the future made little sense. The absence of evidence of effectiveness contributed to lack of enthusiasm for continuation beyond FY 2004.

What seems clear in both the case of the WIA and TANF performance incentive bonus is that they are sought after, and in some cases

they appear to be the cause of selective behavior either by states (in the case of TANF SSPs) or the programs within a state (creaming and gaming in the case of WIA). For both WIA and TANF, employing a method of setting performance targets that could essentially level the playing field with respect to economic conditions and program participant characteristics would go a long way in making the HPB a more successful incentive to improve instead of alter program performance.⁴

Additionally, the effectiveness of both the TANF and WIA HPB programs has suffered due to a weak causal relationship; the performance indicator used to measure TANF program success has been a moving target, and there is no correlation between statewide program performance and the size of the HPB in WIA. Lacking a distinctive connection between cause (high program performance) and effect (bonus award), the HPB tactic, while it in many cases does reward well-functioning programs, does not appear for either TANF or WIA to be eliciting the purely motivated and zealous program behavior it was designed to. On a positive note, these are not insurmountable problems to fix. Clearing up the muddiness of TANF performance metrics and the arbitrariness of WIA HPB award amounts could increase the effectiveness of the HPB approach.

FOOD STAMP/SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM HPB

SNAP is the most important means-tested income support program in the United States. It is administered nationally by the Food and Nutrition Service of the U.S. Department of Agriculture (USDA) and operated locally by state governments or by county governments with state supervision. Before October 2008, SNAP was called the Food Stamp Program (FSP). The Farm Security and Rural Investment Act of 2002 (“The Farm Bill”) included provision for an HPB for states exhibiting exemplary administrative performance. This section summarizes the architecture and operation of the FSP/SNAP HPB and compares it to its inspiration, the HPB introduced for the TANF program in 1996. The conclusion is that, in part because of certain programmatic advantages, the FSP/SNAP HPB is the better designed and operated, but the

program's small size and universal availability make its impact difficult to assess.

Background

The SNAP benefit is delivered by electronic benefits transfer and collected when recipients use a special debit card to purchase food. In FY 2008, state and federal outlays on (then) FSP benefits and administration totaled \$37.7 billion; in contrast state and federal expenditures on TANF benefits amounted to just \$25 billion, and only about half of this was for income support. At any time, slightly less than 10 percent of the U.S. population resides in a SNAP-recipient household; because of turnover (eligibility is determined on a monthly basis), a larger proportion of the population receives benefits at some time during the year. SNAP's importance lies in its universality: The program lacks most of the categorical restrictions imposed for eligibility on other forms of income support.

SNAP is an entitlement, meaning that all persons who meet federal eligibility standards have a legal right to benefits. Accordingly, funding responds to meet demand. The federal government pays all benefit costs, but the costs of administration are shared roughly equally between the federal and state governments. This arrangement invites lax administration. Since state governments pay a substantial fraction of administrative costs but no share of benefits costs, without other incentives they have little motivation for excellence, save an institutional adherence to eligibility rules. This incentive problem is addressed by a well-developed, sample-based quality control system that provides both data on characteristics of SNAP recipients and information on accuracy of eligibility and payments determination. States are liable for the costs of errors made, including both costs that accrue to the federal government and the cost to participants of being paid less than the benefits to which they are entitled. Sanctions are assessed against states with error rates that are persistently high relative to the national average.

States and advocates have long argued that the Food Stamp quality control system reduced the incentive for states to promote access to food stamps by households whose circumstances raised the likelihood of eligibility and computation errors. In particular, households with earnings are more likely to experience income fluctuation and to create difficul-

ties for benefit calculation. While households with earnings might be administratively problematic, the “working poor” were considered an important target for FSP (and, more recently, SNAP) outreach, since USDA take-up estimates suggested that the rate of program participation was particularly low among eligible working households (Leftin and Wolkwitz 2009). In 2002 Congress attempted to address some of these issues, both by modifying benefit computational requirements to reduce the likelihood of error and by shifting the focus of administrative assessment from errors to outreach and achievement. The FSP/SNAP HPB is part of that effort.

THE HPBs

The 2002 Farm Bill authorized the Food and Nutrition Service (FNS) to “establish performance measures relating to actions taken to correct errors, reduce rates of error, improve eligibility determinations, and other indicators of effective administration; measure states’ performance against these performance measures; and award performance bonus payments totaling \$48 million for each fiscal year to state agencies that show high or most improved performance relating to the performance measures” (FNS 2005, p. 6314).

The FNS responded with four bonus categories. Three categories—best payment accuracy, best negative error rate, and application processing timeliness—cover administrative matters. The fourth, program access, involves outreach. Levels and changes are both measured for everything but processing timeliness. Features of the awards for FY 2008 are summarized in Table 10.4 below. Total state FSP administrative expenses for FY 2008 were about \$3 billion, so, at \$48 million, the bonuses amount to less than a 2 percent increment in aggregate. For the individual state winners, however, the gain can be quite significant.

The payment accuracy indices are simply the sum of sample-based estimates of the dollar value of overpayments and underpayments during the year. The FNS Web site reports the components of this measure for each state. On average, the overpayments component is four times the size of the underpayments amount. The official reports give no information on precision of estimates, but the sampling strategy is simple

Table 10.4 Food Stamp Program High Performance Bonuses, FY 2008

Category	Definition	State average (%, unweighted)	Awards made	Best state	Best state score (%)	State award (\$, millions)	Total awards (\$, millions)
Payment accuracy	Sum of erroneous under- and overpayments as proportion of total benefits (%)	5.0	8	Florida	0.8	7.2	24.0
Payment accuracy improvement	Change in payment accuracy measure, FY 2007–FY 2008 (Δ %)		3	Georgia	–5.6	4.1 ^a	
Negative error rate	Proportion of applications or cases denied, suspended, or terminated in error	11.0	4	Nebraska	0.0	0.7	6.0
Negative error rate improvement	Change in negative error measure, FY 2007–FY 2008 (Δ %; negative identifies error decline)	0.02	2	Oklahoma	–6.5	2.3	
Application processing timeliness	Proportion of approved applicants given benefit access within target time (30 days for normal cases, 7 days for cases qualified for expedited processing)	87.8	6	Montana	98.0	0.3	6.0
Program access	Ratio of average monthly number of SNAP participants over calendar year to number of persons in families with incomes less than 125 percent of the federal poverty standard (%)	58.6	4	Missouri	90.0	2.6	12.0
Program access improvement	Change in program access measure, 2007–2008 (Δ %)	3.8	4	Maryland	10.0	1.4	
Total							48.0

^aGeorgia won awards in both level and improvement categories.

SOURCE: FNS; definitions paraphrased.

and samples for all states are large enough to produce equivalent precision.⁵ No agency can win money for both “best” and “most improved,” so Georgia, which scored in both categories, got only one award. The FNS gives each winning state agency a base award of \$100,000, and the remainder is distributed in proportion to average monthly caseload. The result is that Florida ended up receiving \$7.2 billion and the Virgin Islands got \$148,000. The “federalist” character of this exercise is evident in the “national average.” This is not, as might be presumed, an estimate of the accuracy of all payments in aggregate. It is the arithmetic average of state estimates, so the Virgin Islands receive the same weight as California. The national payment accuracy rate would be a measure of FNS performance, and that’s not in accord with the HPB concept.

The “negative error rate” calculations refer not to costs but prevalence of mistakes in actions involving denial, suspension, or termination of benefits. This, too, is sample based. Perhaps the most striking thing in Table 10.4 is the “national average.” Again, this is not the national average for transactions of this sort, but rather the average achievement across states. These data pose political problems, since each negative error involves denial of benefit to a family in need, and some states have rates that are very high—in one case 17 percent. The negative error rates are the only components of the bonus system for which the full “league table” of outcomes for all states is not published on the Web.

Application timeliness is relatively straightforward. One issue concerns definition of when the benefit is received. FSP/SNAP participants may not use their benefit immediately, just as cash recipients may not begin spending immediately. The timeliness definition works with the point at which the new recipient’s electronic benefits transfer card can be used.

It is common to claim that take-up rates for the FSP/SNAP are low, and the FNS has long been criticized for not effectively promoting outreach. The program access index is part of the agency’s response. The index is the ratio of persons living in households receiving FSP/SNAP benefits to an estimate of persons living in families with incomes less than 125 percent of the national poverty standard (FNS 2009). This denominator is intended to approximate roughly the number of persons actually eligible for benefits; various adjustments are made to both the numerator and the denominator to reflect special state circumstances (for example, distribution of food assistance by means other than SNAP

in Native American reservations). Calling this measure the program access *index* rather than program access *rate* reflects the agency's concern that it not be misinterpreted. Over time the program access index has been improved, most notably by shifting the base of state poverty estimates from the CPS to the much larger American Community Survey. The American Community Survey sample size is about 3 million households per year, compared to roughly 100,000 in the CPS Annual Social and Economic Supplement.

While the American Community Survey may be much larger than the CPS, it contains much less data on household characteristics and sources of income—factors important in determining FSP/SNAP eligibility. The FNS contracts with a consulting firm, Mathematica Policy Research, to develop more sophisticated estimates of state FSP/SNAP participation rates using the CPS. In one of the few applications of Bayesian techniques to empirical study of U.S. welfare policies, the Mathematica Policy Research team uses shrinkage estimators to combine observations from state CPS subsamples with regression-based predictions of participation based on other states' experience (Cunningham, Castner, and Schirm 2009). The results are mixed. In FY 2006 (the latest year for which the CPS-based participation estimates are available), the correlation between state ranking on the program access index and ranking on estimated participation rates was 0.86; three of the top four prizewinners would have still won had the (presumably) superior participation rate measure of access been employed. For change, the results are much different: The correlation is ~ 0.4 and only one state appears in both the top four "most improved" lists. What appears to be happening is that the Bayesian shrinkage estimator for state participation rates takes out a lot of "noise" in the data, noise that without adjustment may be interpreted as change.

To the agency's credit, the FNS is aware of these problems and has published analyses of them (cf. FNS 2006). The argument for the program access index as currently calculated is that the number is available by the statutory deadline of September of the year following the performance year. This is a work in progress; the challenge is to find an indicator with a more credible connection to genuine improvement in achieved participation rates.

Net Effects

Has the bonus system actually improved performance? It is difficult to judge, both because of the absence of a counterfactual and because changes over time in eligibility standards have reduced the rigor of eligibility definition. Nevertheless, the story is mixed. Average state achievement on the Payment Error Rate has fallen from 6.63 in FY 2003 to the 5.01 recorded for FY 2008 in Table 10.4. On the other hand, the average negative error rate has increased from 7.6 to 11.0. Access, as measured both by the program access index and estimated participation rates (through 2006), is also up, both for all families and the subset with earnings. This of course could simply be the product of publication of the “league tables” of state achievement on the various dimensions used for HPB assessment. But the bonuses do serve to draw attention to data and add to whatever motivation exists for state operators to seek improvement opportunities.

The Missing Element

If there is a shortcoming here, it is in the absence of an openly debated agenda for evaluation and refinement. However, the FNS does engage in a number of forums in which federal and state officials confer—most notably the meetings of what is now called the American Association of SNAP Directors. The problems with the program access and other measures are openly addressed in its sponsored research. Nevertheless, there is little institutional apparatus either for developing a vision of where the management system should be headed or refinement of the performance indicators for assessing progress toward that goal.

SNAP program administration is an interesting contrast to WIA and TANF in that there is a tremendous amount of control on the part of the program or state administrators to improve performance over the four metrics in use. The metrics, however, are designed to have this effect. In essence, the proper or improved functioning of SNAP *is* the goal, whereas the expected levels of performance for WIA and TANF apply to the participants of the program (e.g., employment, or reemployment rates), who are strongly influenced by behavioral and economic factors and labor market conditions. Awarding a program a monetary bonus for

performance metrics specific to the functioning of that program (i.e., SNAP) may create an environment more conducive to improved program performance using HPBs. Regardless, rewarding program rather than participant behavior has allowed SNAP to make a much stronger connection between the annual performance levels and the amount of the incentive award.

LESSONS LEARNED FROM HPB PROGRAMS

While there are similarities and differences between the three HPB programs we have examined, there are a number of lessons that can be learned from their use.

Inadequate Emphasis on Best Practice

Arguably the greatest failing of the TANF HPB was that after one major round of reform, it went nowhere. An important indicator of the quality of management systems is the presence of procedures for feedback, assessment, and improvement. It is virtually impossible to predict in advance all problems and opportunities that will arise in context of development of performance assessment and incentive systems. Any plan for implementation of a performance assessment and bonus system should include provisions for review and adjustment.

WIA programs similarly missed an opportunity to exemplify bonus award winners as leaders in best practices. As shown in Table 10.1, HPBs have been awarded to a narrow set of states from year to year, and therefore do not appear to be encouraging the spreading of performance-enhancing practices which would lead to a wider set of states achieving bonuses.

By contrast, in the SNAP program, the clear connection between nationally rewarded outcomes and local management is emphasized by the FNS on its Web site, where the data on achievement are followed by links to information on “promising practices” for improving access, outreach, improving payment accuracy, and managing recent increase in demand for SNAP benefits.⁶ Improvement of local management is promoted by FNS regional offices.

Insufficient Focus on Objectives

The WIA monetary incentives are small and are likely to have weak impacts on state workforce agencies serving moderate to large numbers of participants. Typically, incentives to improve performance are higher with high bonus amounts, but in the case of WIA, even if all states were to apply for and receive the maximum incentive grant award, this total amount would be a very small percentage of annual WIA funding. With a weak link between award amounts and program performance, the objective of improved program efficacy is lost, particularly in large states.

The TANF HPB indicators are distinctly ad hoc and seem to miss essentials. This creates a sense of arbitrariness in the factors determining which states receive awards. It also creates an unstable link between program performance and HPB achievements. Indicators need to be motivated by a philosophy of what the system is attempting to accomplish in order to improve program performance.

Only the SNAP program shows promise in connecting the HPB with the program objectives. The SNAP bonus program has a direct connection with what is done and what should be monitored at the “ground level,” i.e., where SNAP eligibility is assessed and benefits are calculated and delivered.

Negative Impact on Program Operation

WIA differs from previous workforce development programs like JTPA in discontinuing use of state or local regression analysis, which factored in prevailing regional labor market and economic conditions that affect workforce program outcomes in setting targets. Instead, states make adjustments for these exogenous factors through a negotiation process in setting performance targets. Offering incentive grants may apply pressure at the state level to encourage manipulative behavior to negotiate lower performance targets to increase the likelihood of achieving the performance levels required to qualify for incentive grants.

What this pressure does at the programmatic level is to discourage frontline service to those participants hardest to serve, which are often those most in need, in order to secure higher levels of performance. This effect of programmatic disinclination to offer services or to pro-

cess claims for challenging populations occurs in both the WIA and the TANF programs.

Greater Care Needed Regarding Data Use and Validity

In the case of TANF, greater caution should be exercised with regard to statistical inference. It is doubtful that any honest governmental purpose is served by ignoring the shortcomings of sample-based achievement estimators. Where possible, data on the target “universe” are better, but such data often come with their own problems. In any event, statistical inference based on data to which operators have access is better than numbers that cannot be audited.

The FSP/SNAP bonus systems rest on a good deal of statistical inference. A substantial effort is made to report precision of estimation and to acknowledge the role of random factors in affecting interstate comparisons. The data on participation rates, for example, are reported in a league chart that includes confidence intervals around point estimates (see Cunningham, Castner, and Schirm 2009, p. 2).

All of the three SNAP operations-related performance indicators used to award HPBs are subject to, and indeed derived from, a uniform, sample-based audit. This methodology diminishes the potential for bias and for results skewed by exogenous factors, which reduces the risk of creating an award program with unreasonable benchmarks. One drawback, however, is that HPBs have been awarded to high performing states relative to a national average which, given the wide variation in state performance levels, decreases the sensitivity of this approach in determining HPB awards.

The WIA HPB, by contrast, does not make use of statistical inference. State submissions of performance data for the HPB program are accepted by the USDOL, subject to a data validation process administered for each state.

Institutional Development Can Be an Important Product

The primary original purpose of the NDNH was the creation of a database to support pursuit across state borders of noncustodial parents obligated to provide child support. Performance assessment for TANF is something quite different, and manipulation of NDNH data for this

purpose has required substantial administrative investment. Though the TANF HPB is not currently in use, the apparatus developed for analysis of the NDNH has been used for other DHHS policy research.

In 2008, a new administration was elected with a new social policy agenda. Since the January 2009 inauguration, a new leadership team was installed at the DHHS. As of the end of 2010, the social policy objectives beyond universal health care had yet to be announced in detail, but planning was under way for the next reauthorization of TANF, scheduled for 2010 but deferred until 2011. TANF is the responsibility of the DHHS Administration for Children and Families (ACF). In anticipation of reauthorization, ACF working groups were established both to review performance measures and to develop a new set of incentives for innovation in social policy, in part following the lead of the Department of Education's "Invest in Education" fund. It appears likely that data from the NDNH, restructured in light of HPB performance, will play a role in these developments.

Similarly, the WIA program will await reauthorization until at least 2011 or 2012. There has been no indication of whether the HPB is to be recommended for continuation in the new legislation or not.

CONCLUSIONS

Offering monetary bonus awards as an incentive to improve performance—once a favored approach in the business world—has had inconclusive impacts on governmental program performance, and might actually be encouraging programs to alter their behavior to improve their chances of gaining a bonus at the expense of not serving their customers.

Though PYs 2000–2002 were the highest for receipt of WIA HPBs, there isn't a clear legacy of improved program performance resulting from use of this incentive system. The states that received WIA bonuses have done so sporadically and have received differing amounts from year to year, and state-by-state comparisons of HPBs between states within the same year reveal little logic in how the amounts are assigned. At best, this type of incentive appears to have minimal impact on improving program performance, and at worst, might decrease pro-

gram effectiveness. When an HPB is offered through the WIA program, the temptation intensifies to either selectively report on only favorable performance data or to strategically negotiate performance levels to increase the probability of qualifying for a bonus. In addition, the incidences of gaming the system in WIA to obtain monetary performance incentives has resulted in reduction of services to difficult-to-serve populations for which job entry (a primary performance indicator) is particularly challenging.

TANF programs show some reporting patterns that also indicate that select reporting has been occurring in order to increase the reported performance rates. Since TANF does not offer the same opportunity that WIA does to negotiate expected performance levels for each state, those states characterized by a depressed economy have been at a disadvantage in qualifying for a bonus. States have been further alienated from any benefits of a monetary bonus because of insufficient or invalid data, and inconsistent data requirements in TANF have lent an air of arbitrariness to the award of these financial incentives. The temporal gap between program performance and bonus award is wide due to reporting delays and, since no effort has been made to exemplify the top performers in encouraging overall performance increases, it isn't even clear from the federal administration of TANF that these bonuses are a useful tool for increasing program performance levels.

The SNAP program offers a more promising bonus model and, compared to WIA and TANF, it has large strategic advantages. The objective of the program is near-immediate: delivering a well-defined benefit to a target population each month. This means that outcomes can be observed very soon after the management actions that do or do not produce them. Moreover, the foundation of assessment is a well-designed audit program for procedures that are intended to be identical nationwide. That said, the transparency developed for assessment procedures and the ongoing assessment of measure validity seems admirable and worthy of study by social assistance agencies in other departments and, for that matter, other countries. It is possible that the unusual name and character of the SNAP/FSP has caused the program to be overlooked by those from abroad looking for promising practice in social assistance governance.

Federal funding of HPBs in WIA and TANF has in fact significantly diminished or ceased by this point, and funding for the SNAP bonus

has never been large. Overall, the challenges in estimating the merit of these awards based on inconsistent data sources, the fact that the bonuses do not provide any monetary gain to local service providers, and the pressure they place on programs to alter their reporting or service behavior in a nonaltruistic direction makes HPBs in government programs an inefficient use of federal resources.

Notes

1. As used in this chapter, the term *state* includes the District of Columbia.
2. Actually, this definition, taken from the Labor Department's Annual TANF report, is incorrect. The numerator in the actual calculation is the sum across four quarters of unduplicated TANF recipient adults with earnings in the current quarter but no earnings in the quarter preceding divided by the unduplicated sum across four quarters of TANF recipient adults who meet the unemployment criterion, i.e., have no reported earnings in the previous quarter (see Wiseman [2006] for more detail).
3. A higher proportion of children receive TANF assistance at some point during the year.
4. A pilot program is under way at the USDOL to test the effect of economic and demographic characteristics on local and state workforce program performance. It is possible this pilot program will affect the WIA HPB should it remain available for state employment and training programs.
5. The 1/100th of a percent difference between Mississippi and North Carolina is undoubtedly not significant, and the 3.22 percent payment error rate for the marginal winning "state," the Virgin Islands, was hardly different from the runner-up, Colorado, at 3.32, so chance clearly plays a role.
6. See <http://www.fns.usda.gov/snap/government/program-improvement.htm>.

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