DOCUMENT RESUME

ED 330 791 CE 056 174

TITLE Developing Effective JTPA Performance Standards Incentive Policies: A Technical Assistance Guide.
INSTITUTION Berkeley Planning Associates, Calif.; SRI International, Menlo Park, Calif.
SPONS AGENCY National Commission for Employment Policy (DOL), Washington, D.C.
REPORT NO SRI-RR-89-07
PUB DATE Mar 90
NOTE 71p.
PUB TYPE Guides - Non-Classroom Use (055)

EDRS PRICE MF01/PC03 Plus Postage.
DESCRIPTORS *Employment Programs; Federal Aid; *Federal Programs; *Incentive Grants; Incentives; *Job Training; Models; Performance; Postsecondary Education; Program Implementation; *Program Improvement; Public Policy; Standards; *State Programs
IDENTIFIERS *Job Training Partnership Act 1982

ABSTRACT

This technical assistance guide was developed to help state policy makers develop performance-standard incentive policies that are effective tools in accomplishing state and federal goals for Job Training Partnership Act (JTPA) programs. The guide is organized in three sections. The first section introduces incentive policies as tools to further state and federal JTPA goals, summarizes the federal goals for JTPA, and highlights policy mechanisms available to states to guide the JTPA program. It concludes with a summary of principles that should be followed in designing effective incentive policies. The second section presents a guide to developing incentive policies that address the key questions within each of the four basic elements of incentive policies (emphasizing different outcomes, qualifying for incentive awards, calculating incentive awards, and conditions placed on incentive funds). The third section presents examples of how some states have chosen among these options to develop incentive policies to further JTPA program goals and priorities. Examples from Georgia, New York, Pennsylvania, Kentucky, and Colorado show how a coherent set of program objectives underlies the development of incentive policies in these states and how the design elements described in section 2 can work together. The purpose of the section is to help states develop incentive policies appropriate to their own policy objectives. An appendix provides a weighting procedure to treat standards equally in a composite measure of performance. (KC)

DEVELOPING EFFECTIVE JTPA PERFORMANCE STANDARDS INCENTIVE POLICIES:

A Technical Assistance Guide

National Commission for Employment Policy

DEVELOPING EFFECTIVE JTPA PERFORMANCE STANDARDS INCENTIVE POLICIES:

A Technical Assistance Guide

National Commission for Employment Policy

SRI International
333 Ravenswood Avenue
Menlo Park, CA 94025

and

Berkeley Planning Associates
440 Grand Avenue, Suite 500
Oakland, CA 94610-5085

Research Report 89-07

March 1990

The opinions expressed in this paper are those of the authors and do not necessarily reflect the opinions of the members and staff of the National Commission for Employment Policy, and the organizations and agencies participating in this study.

CONTENTS

EXHIBITS

I INCENTIVE POLICIES AS TOOLS TO FURTHER STATE AND FEDERAL JTPA GOALS

A. INTRODUCTION

The purpose of this technical assistance guide is to help state policymakers to develop performance-standard incentive policies that are effective tools in accomplishing state and federal goals for JTPA programs. Incentive funds are valued by SDAs because they are tangible rewards for accomplishing program goals, can be used more flexibly than other funds, and can help cushion declining allocations in some SDAs. Incentive policies, therefore, are a powerful mechanism for states to guide the JTPA program.

To be effective, however, incentive policies must clearly reward the attainment of the state's goals. Unfortunately, the incentive systems in many states have not been designed to accomplish specific purposes but instead have evolved over time as technical responses to legislative or regulatory requirements rather than as a means to promote state goals. This guide is intended to help states reexamine and, if necessary, revise their incentive policies to accomplish intended goals and avoid unintended results.

Developing incentive award policies involves a four-step process:

- Establish clear goals to be accomplished by the state's JTPA program.
- Select performance outcomes that are consistent with those goals and that measure the attainment of the goals as closely as possible.
- Set realistic expectations for attainment of performance outcomes.
- Develop incentive award policies that reinforce the attainment of the state's goals.

The remainder of this chapter summarizes the federal goals for JTPA and highlights policy mechanisms available to states to guide the JTPA program. It concludes with a summary of principles that should be followed in designing effective incentive policies.

B. FEDERAL AND STATE PROGRAM GOALS AND POLICIES

Federal goals for the JTPA program include the promotion of services that:

- Improve the long-term employability of JTPA participants.
- Result in the placement of program terminees in quality jobs.
- Address the acquisition of basic skills by individuals with basic skills deficiencies.
- Take advantage of effective coordination of services and funding streams at the state and local levels.
- Target the needs of individuals with serious employment barriers.

These goals are reflected in the federal measures chosen for PY 90. The adult and welfare follow-up employment measures more adequately reflect the program's ability to improve participants' long-term employability than did the termination-based employment measures. The adult and welfare measures of weekly earnings at follow-up reflect the attainment of quality jobs. The youth employability enhancement measure emphasizes that improving the long-term employability of youth involves more than finding them immediate employment and that addressing basic skills deficiencies is a valuable outcome for JTPA. The youth entered-employment rate will be applied to youths for whom employment is the immediate goal.

Further, beginning in PY 90, cost measures are not included as federal measures and states are precluded from awarding incentives for exceeding cost measures. As described in Chapter II, cost standards have substantial unintended effects of reducing services to individuals with serious employment barriers and reducing the provision of basic skills services.

Thus, the federal performance standards follow clearly from goals that DOL has established for the JTPA system. The federal performance standards, however, were never intended to be the only source of policy guidance for the JTPA system. As shaped by the framers of the JTPA legislation, the JTPA system provides substantial discretion to states and SDAs to develop policy goals for JTPA client targeting and service strategies in keeping with local concerns and priorities.

The JTPA legislation invites states to be active partners with the federal government in shaping JTPA policies to further a variety of performance, client, and service goals. States have the ability to provide policy guidance and leadership to SDAs on these issues through a variety of mechanisms, including:

- The development of state policies about priority clients in the Governor's Coordination and Special Services Plan.
- The shaping of the state performance-standard system, including the choice of additional state standards and the design of incentive policies.
- The design and implementation of technical assistance efforts to improve program effectiveness and promote innovative services.
- The design of data collection systems to monitor program achievements.
- The establishment of policies and mechanisms to promote coordination between JTPA and other agencies.

Thus, performance standards are only one mechanism for communicating and reinforcing state goals for the JTPA program. It is important, therefore, for other state policies to work together with performance-standard policies to further state goals.

C. SUMMARY OF DESIGN PRINCIPLES

As discussed above, the first principle in designing incentive policies is that the policies should be explicitly chosen to reinforce state goals for the JTPA program. In doing so, however, several other factors should be considered. It is important to recognize that tradeoffs among competing goals may be necessary. For example, the goals of maximizing local autonomy in program design, encouraging service to the hard-to-serve, and maximizing performance on outcome measures are likely to conflict in designing an incentive policy. The incentive policy, therefore, should clearly reflect the state's priorities when tradeoffs are required.

A related principle is that the incentive policy should not only accomplish its intended effects but also avoid unintended effects. The next section of this guide, therefore, highlights both the intended and unintended effects of various policy options.

Another design principle that is very important for effective communication of state policy goals is simplicity. This goal can be very difficult to achieve in practice because many different design elements need to be taken into account in developing incentive award policies. It should be kept in mind, however, that the ultimate goal is to influence SDAs' behavior. If SDA staff do not understand an incentive award formula, they cannot respond to it appropriately in designing and operating their JTPA programs.

The remainder of this guide presents information to help states design incentive policies that promote state goals and priorities, avoid unintended effects, and are as simple as possible. Chapter II presents a detailed step-by-step guide to the elements in states' incentive policies. It presents options that states have chosen to emphasize different outcomes, to determine when SDAs qualify for incentive awards, and to calculate the amount of incentive payments based on SDAs' performance relative to their standards. For each element, we present the intention of the policy, the number of states that used the policy in PY 88, a specific example of the policy, and the effects of that policy on performance achieved, clients served, and services provided.

Chapter III presents case studies of five state policies. These policies were chosen not necessarily as models for other states to adopt but rather as examples of coherent policies in which all elements work together to accomplish clearly established state goals.

II ELEMENTS IN STATE INCENTIVE AWARD POLICIES

State incentive policies are composed of four basic policy elements: the emphasis placed on different outcomes, how SDAs qualify for incentive awards, how incentive awards are calculated, and what conditions are placed on the use of incentive funds. All four of these basic elements should be designed to work together to further state goals for JTPA.

This chapter presents a step-by-step guide to developing incentive policies that address the following key questions within each of the four basic elements of incentive policies:

Emphasizing different outcomes:

- Do the federal standards adequately reflect state goals for JTPA or should additional state standards be added?
- Are all outcomes equally important or should key outcomes be emphasized over other outcomes?

Qualifying for incentive awards:

- When is an SDA's performance on an individual standard sufficiently high to have met that standard? To have exceeded that standard?
- When is an SDA's performance on all standards sufficiently high to qualify for incentive awards?

Calculating incentive awards:

- Should a separate pool for each standard be established or should a composite measure of performance be used?
- How much should SDAs receive for marginally exceeding their standards?
- How should performance beyond the standard be rewarded?
- Should there be a cap on rewarded performance beyond which no additional incentive awards are received?

- Should awards be determined competitively so that how much one SDA receives depends on how well other SDAs in the state performed?
- Should the amount of incentive awards depend on the size of the SDA?

Conditions placed on incentive funds:

- Should incentive funds be exempt from performance standards?
- Should the state require incentive funds to be used for specific purposes?

For each of these aspects of incentive policies, this guide presents:

- The intention of the policy.
- The number of states that chose the policy in PY 88.
- An example of the policy.
- The effect of the policy, both intended and unintended, on clients served, services provided, and performance achieved.*

A. EMPHASIZING DIFFERENT OUTCOMES

States can affect the direction of the JTPA program by emphasizing the outcomes for which SDAs will be rewarded in their incentive policies. The first step is to decide whether the federal standards adequately reflect the state goals for JTPA or whether the state wants to establish additional performance measures. The next step is to decide whether all the chosen outcomes are equally

* Information about the intended and unintended effects of state policies was obtained from "JTPA Performance Standards: Effects on Clients, Services and Costs" (NCEP, 1988) and a subsequent study, "The Effects of JTPA Performance Standards on Performance" (NCEP, forthcoming). Information about states' intentions for their policies was obtained from discussions with state staff as part of the NCEP studies and from "The Study of Exempted 6% Projects" (SRI, forthcoming). Information about states' incentive policies was obtained from the Governor's Coordination and Special Services Plans for PY 88.

important or whether key outcomes should be emphasized over other measures. This section describes these two steps:

- Choosing additional state performance standards to be used in awarding incentives.
- Emphasizing performance on key standards in calculating incentives.

1. Choosing Additional State Performance Standards

Options for State Standards

States have chosen four types of additional standards:

A. Service levels to hard-to-serve groups

B. Outcomes for hard-to-serve groups

C. Additional outcomes

D. Other program goals.

Option A: Standards for Service Levels to Hard-to-Serve Groups

Intentions of Policy. States have adopted additional standards for service to hard-to-serve groups to increase the number of at-risk individuals served by JTPA.

Past Experience. In PY 88, 14 states set standards for service to hard-to-serve groups. Eight states set separate standards for the proportion of terminees that were in specific groups, such as dropouts, welfare recipients, minorities, women, and handicapped. In a few cases, service to the hard-to-serve was not identified explicitly as a state standard, but the level of service to specific target groups was incorporated into the calculation of incentive payments. Eight states set a standard for the proportion of terminees that met a broader definition of hard to serve.

Example of Policy. Kansas set separate standards for the level of service to AFDC recipients, females, and minorities for PY 88/89.

The service level standards for AFDC recipients and minorities were adjusted to reflect the incidence of the target group in an SDA's eligible population, and the standard for females was set at 57%. Half of incentive awards were given to SDAs that exceeded target levels for the specific hard-to-serve groups. SDAs had to exceed service levels for all three groups to be eligible for the incentive award for service to targeted groups. Additionally, the state assigned separate weights to each target group--AFDC recipients (50%), females (25%), and minorities (25%)--thus providing greater incentives for serving AFDC recipients.

Option B: Standards for Outcomes for Hard-to-Serve Groups

Intentions of Policy. States adopting outcome standards for specific groups wanted to ensure that SDAs achieved valued outcomes for hard-to-serve participants as well as other JTPA participants.

Past Experience. In PY 88, 7 states set a standard for the level of outcomes attained for hard-to-serve participants. Most often, the outcomes were placement, although 3 states established positive termination rates and one set a wage at placement standard for hard-to-serve participants.

Example of Policy. Arizona set two state outcome-oriented performance standards for hard-to-serve groups: a hard-to-serve positive-termination rate and an adult and youth AFDC entered-employment/retention rate. Specific hard-to-serve groups identified by the Governor included:

Welfare recipients
Handicapped individuals
Offenders
Individuals with limited English proficiency
Migrant or seasonal farm workers
Displaced homemakers
Substance dependent individuals
School dropouts.

To receive an award, the SDA's positive terminations (as defined by JTPA Administration) for these groups had to exceed 40% of all SDA positive terminations.

Arizona's Adult and Youth AFDC Entered Employment/ Retention Rate was designed to reward SDAs that place and retain AFDC recipients in unsubsidized employment for 90 days. The incentive award is determined by the extent the SDA's performance benchmark is exceeded.

Option C: Standards for Additional Outcomes

Intentions of Policy. States have chosen standards for additional outcomes for several reasons. In PY 88, several states chose more than eight federal standards, often so that SDAs would be held accountable both for the more familiar termination-based outcomes and for the new follow-up measures. Often this was seen as a transition strategy, although some states may wish to continue using termination-based standards in PY 90 as well.

Other states applied adult outcome measures to youths as well because they felt they were valid outcomes for all JTPA participants. Another reason additional outcomes were chosen was to measure the quality of jobs obtained through JTPA, including measures for wage gains and placements in growing industries.

Another option that states may wish to consider is adding a standard for intermediate outcomes for adults, such as the number of individuals with basic skills deficiencies that attained additional basic skills or a GED. The intention of this standard would be to encourage SDAs to provide basic skills training.

Although not adopted for PY 90, consideration was given at the federal level to establishing a "value-added" placement rate standard that would count the number of adults who attained basic skills or job-specific skills and who entered employment. The intention of such a standard would be to discourage less intensive services, such as job search assistance only, and encourage more intensive services that would have a potentially greater effect on long-term employability.

Past Experience. In PY 88, 10 states set standards for additional outcomes. Five designated as state standards additional standards chosen from the federal menu of measures, and 5 set standards for other types of outcomes.

Example of Policy. Washington State established a youth retention rate standard. The standard was determined by dividing the number of youths employed at both follow-up and termination by the number of youths who were employed at termination. Washington developed a statewide regression model to adjust its youth retention rate standard.

Option D: Standards for Other Program Goals

Intentions of Policy. Some states have incorporated other goals into state standards because incentive payments are a useful tool for rewarding the achievement of these goals.

Past Experience. In PY 88, 5 states set standards for other program goals, including expenditure rates and coordination with other programs. In addition, although expenditure rates were not explicitly identified as a state standard, 15 states incorporated the expenditure rate into the calculation of incentive awards.

Example of Policy. New Mexico set two Governor's standards: an 85% planned expenditure rate and an 85% planned enrollment rate. Twenty percent of available incentive awards are distributed to SDAs that exceed these standards.

Effects of State Performance Standards

State standards can affect clients served, the services provided, and program performance. As summarized in Exhibit II-1, standards for service levels for specific target groups do have the intended effects of increasing service to those groups. Performance standards for service to welfare recipients also increase the number of participants receiving basic skills training. Standards for service to welfare recipients tend to decrease performance on the wage at placement and earnings at follow-up measures.

Exhibit II-1

SUMMARY OF EFFECTS OF ADOPTING STATE STANDARDS FOR SERVICE TO WELFARE RECIPIENTS AND DROPOUTS

State Standards for Service to Welfare Recipients

Intended Effects	Unintended Effects
Increases the percentage of adult welfare recipients served	Decreases performance on standards for wage at placement and weekly earnings at follow-up
Increases the percentage of adults and youths receiving basic skills training	

State Standards for Service to Dropouts

Intended Effects	Unintended Effects
Increases the percentage of adult dropouts served	Increases the percentage of adults and youths receiving job search assistance
	Reduces performance on employment measures

Standards for service levels to dropouts increase enrollment of dropouts but do not have the intended effect of increasing the provision of basic skills services. Instead, standards for service to dropouts increase the number of individuals receiving job search assistance from JTPA. In site visits to SDAs, it was found that some SDAs provide dropouts either OJT or only job search assistance because their classroom training service providers require enrollees to have a high school diploma. State standards for service to dropouts, therefc re, are not sufficient to ensure that dropouts receive quality services. Standards for service levels to dropouts tend to reduce performance on employment-related outcomes.

The effects of outcomes for hard-to-serve groups cannot be separated from the effects of service levels because most states that set outcome standards for the hard-to-serve also establish service level standards as well. Too few states adopted specific measures to determine their effects on other outcomes. However, in general, SDAs tend to respond to additional standards.

Although additional state standards are powerful policy tools that states can use to affect the direction of JTPA, another unintended effect can occur if too many standards are added or if the goals of the standards become confusing or conflicting. Findings from site visits indicate that some policies were trying to accomplish too much, and SDAs could not plan to achieve all the outcomes at once.

2. Emphasizing Performance on Key Measures

State Options for Emphasizing Outcomes

After the performance measures have been chosen, the next step is to decide whether all outcomes are equally important or whether the state wants to emphasize key outcomes over other measures. There are two ways that this can be done:

A. Weighting standards differently in calculating incentive awards.

B. Establishing core standards that must be exceeded to receive any incentive awards.

Option A: Weighting Standards Differently in Calculating Incentive Awards

Intention of Policy. States chose higher weights for standards more important to their goals for the JTPA program. In PY 88, some states chose follow-up standards as federal standards but gave these standards lower-than- average weights as a transition strategy.

Past Experience. In PY 88, 25 states explicitly weighted standards differently. Generally, states tend to weight the adult standards more than the youth standards.

However, 21 states unintentionally weighted standards differently by using a composite measure of the extent to which standards were exceeded. As described in detail in Section C, these states used a composite measure to aggregate standards that calculated the percentage by which each standard was exceeded and summed across standards. This procedure inadvertently gave greater weight to standards that were easier to exceed by a large amount. In the past, this approach gave substantially greater weight to the cost standard. In PY 90, states are precluded from basing incentive awards on cost standards, so this problem of inadvertent weighting will be reduced although not eliminated. Appendix A presents a technical note on ways to reduce this unintended weighting of standards.

Example of Policy. As Colorado moved toward a post-program system in PY 88/89, various weights were assigned to performance measures in awarding incentive funds. The selected standards and weights for each program year are outlined below.

Performance Standard	Weights (%) PY 88	PY 89
Adult entered-employment rate	5.0	3.0
Adult follow-up employment rate	15.0	13.0
Adult weeks worked during follow-up	15.0	13.0
Adult wage at placement	10.0	--
Weekly earnings of adults employed	--	16.0
Adult cost per entered employment	0.0	0.0
Welfare entered-employment rate	15.0	--
Welfare follow-up employment rate	15.0	--
Youth positive-termination rate	40.0	25.0
Youth cost per positive termination at follow-up	0.0	0.0
Youth employability enhancement rate (state standard)	15.0	--

By establishing this weight distribution, Colorado eliminated incentive awards for the cost standard and promoted follow-up employment as the priority performance measure.

Option B: Establishing Core Standards

Intentions of Policy. States have established some standards as core standards that must be exceeded before an SDA can receive any incentives. States establishing core standards indicate that these outcomes are so important that exceeding them is a necessary condition for being considered a good performer. As a result, SDAs are not allow to tradeoff overperformance on a noncore standard against underperformance on a core standard.

Past Experience. In PY 88, 9 states established core standards. The adult and welfare employment standards were frequently included in the core, although the youth employability enhancement rate was included in the core by 4 states.

Example of policy. Oklahoma required that SDAs exceed six of the eight performance standards to be eligible for a "base award." The adult entered-employment rate, adult welfare entered-employment rate, adult follow-up employment rate, and youth

22

employability enhancement rate were identified as core standards that had to be among the six standards exceeded. SDAs that failed to exceed one of these four core standards were ineligible for the base award, which accounted for 50% of the total available incentive award.

Effects of Emphasis on Key Standards

State efforts to emphasize different outcomes do generally increase SDAs' performance on those outcomes. However, the increased performance on the emphasized standard sometimes occurs at the expense of performance on other measures. This is particularly true for the youth measures: emphasis on employment-related standards tends to decrease performance on the employability enhancement measure and vice versa. It is important that states recognize this tradeoff: if a state chooses to weight one standard more highly, it may reduce performance on the other types of standards.

One exception to this tradeoff among measures occurs for the earnings standards, including the wage at placement and weekly earnings at follow-up. As shown in Exhibit II-2, emphasis on these standards increases performance on both earnings measures and follow-up employment measures. One hypothesis is that participants earning higher wage rates are more likely to stay on the job than those earning lower wage rates, resulting in higher follow-up employment rates.

Emphasis on different standards can also affect the types of clients enrolled in JTPA and the types of services provided. Placing greater weight on the wage standard tends to increase the proportion of adult participants receiving classroom training and decrease the proportion receiving OJT. However, this shift may partially explain the fact that greater emphasis on the wage standard somewhat reduces the number of dropouts served because many classroom providers require a high school diploma at entry. For youths, greater emphasis on the entered employment rate standard tends to reduce service to in-school youths.

A key finding is the substantial unintended effects of emphasizing the cost standards. In PY 86, emphasis on cost standards reduced performance on all the outcome measures for adults and service to

Exhibit II-2

SUMMARY OF EFFECTS OF GIVING HIGH WEIGHTS TO DIFFERENT TYPES OF STANDARDS

Adult Earnings Measures (Wage at Placement and Follow-up Weekly Earnings)

Intended Effects	Unintended Effects
Increases performance on: ▪ Adult wage at placement ▪ Adult weekly earnings at follow-up ▪ Adult follow-up employment rate Increases proportion of adults receiving classroom training in occupational skills and reduces proportion receiving OJT	Somewhat reduces service to adult dropouts

Cost Measures

Intended Effects	Unintended Effects
None	Decreases service to adults and youth welfare recipients and dropouts Increases number of youths participating in job search assistance Decreases average length of training for adults In PY 86, reduced performance on all adult outcome standards

welfare recipients, dropouts, and those with other barriers to employment. Emphasis on the cost standards also reduced reduced provision of longer-term services for adults and increased the provision of job search assistance services for youths. For these reasons, states are prohibited from basing incentive awards on cost standards, beginning in PY 90.

B. QUALIFYING FOR INCENTIVE AWARDS

The second major policy element in the state's incentive policy is to determine when an SDA's performance is sufficient to qualify for incentives. Two provisions in the legislation have affected states' policy choices:

> Incentive grants ... shall be distributed among service delivery areas exceeding their performance standards in an equitable proportion based on the degree by which the service delivery areas exceed their performance standards. Section 202(b)(3)(B)

> The Governor shall provide technical assistance to programs which do not meet performance criteria. If the failure to meet performance standards persists for a second year, the Governor shall impose a reorganization plan. Section 106(h)(1)

Thus, the legislation requires that incentives be given to SDAs exceeding performance standards and that sanctions be applied to SDAs failing to meet performance standards. However, the development of operational definitions of exceeding and failing to meet standards has been left to the states.

Many states have felt a tension between these two requirements. On the one hand, they do not want to set the criteria for failing so high that SDAs performing at an adequate level fail; on the other hand, they do not want to set the criteria for exceeding so low that SDAs performing at a marginally adequate level get substantial rewards for good performance. Several options to distinguish between exceeding and failing to meet standards are described in this section.

In establishing criteria about when SDAs qualify for incentives, states must develop two separate policies:

- How to define exceeding and failing to meet <u>individual standards</u>
- How to define exceeding or failing to meet <u>performance standards overall</u>, usually based on the number of standards exceeded.

1. Defining Exceeding and Failing to Meet Individual Standards

Options for Individual Standards

States have used two basic options in defining whether an SDA's performance exceeds or fails to meet an individual standard:

A. Use a single performance level to separate exceeding the standard from failing to meet the standard.

B. Use a higher performance level to define exceeding the standard and a lower level to define failing to meet the standard.

Option A: Use a Single Performance Level to Separate Exceeding from Failing to Meet the Standard

With a single level separating exceeding the standard from failing to meet the standard, an SDA does either one or the other. With this "knife edge" approach, there is no middle ground where an SDA merely meets the standard (except in the rare event that the actual performance is exactly equal to the standard). Consequently, the difference in performance between an exceeding SDA and a failing SDA might be very small.

Failing Exceeding

____________ / ____________

Intentions of Policy. States that want all their SDAs to receive some 6% funding, often as a buffer against declining 78% allocations, tended to use this "knife edge" approach. With the level for receiving any incentives set at a relatively low level, most SDAs would exceed standards and thus qualify for incentive awards.

Past Experience. A single number was used by 28 states in PY 88 to define exceeding and failing to meet individual standards. Twenty states that set a single level used the model-adjusted performance level to separate exceeding from failing to meet standards; the other 8 states used the lower level of the tolerance range (i.e., model-adjusted performance level minus the tolerance range).

Example of Policy. Alabama has defined exceeding a standard as performance above the lower bound of the tolerance range. SDAs that perform below this level are considered to have failed to meet the standard. If an SDA fails to meet five or more standards, it is ineligible for an incentive award. Those SDAs that meet this eligibility criterion receive an award based on the extent to which standards are exceeded.

Option B: Use a Lower Level to Define Failing to Meet the Standard and a Higher Level to Define Exceeding the Standard

Defining separate levels for exceeding and failing to meet a standard establishes three levels of performance. SDAs with performance below the lower level have failed to meet the standard. SDAs with performance above the higher level have exceeded the standard. In between, SDAs have met the standard and thus are not at risk of sanction for that standard, but they have not exceeded the standard and thus do not qualify for incentives for their performance on that standard.

Failing Meeting Exceeding

__________ / __________ / __________

Intentions of Policy. Some states used this policy to assure that there was substantial difference in performance between SDAs exceeding a standard and those failing to meet it. Some of these states wanted to reserve incentive awards for high performance. For example, one state that established a pronounced middle ground between failing to meet and exceeding a standard explained its intent as encouraging high overall performance without setting up the expectation that any single SDA was likely to receive the highest possible award on every standard. In this state, every SDA was expected to meet every standard, and every SDA typically received something in the way of incentive awards for performance on one or more standards.

Past Experience. Fifteen states defined separate ranges for failing to meet, meeting, and exceeding each standard in PY 88. Nine of these states set a relatively lenient level for exceeding standards by using the model-adjusted performance level for the top of the range and by subtracting either the tolerance range (7 states) or another value (2 states) for the bottom of the range. Two states used the model-adjusted performance level plus the tolerance level for top range and minus the tolerance level for the bottom range. The remaining 5 states took a more stringent approach by using the model-adjusted performance level as the bottom of the range. One of these states defined the upper end of the range as performance above the 50th percentile among the nation's SDAs and defined the lower end as performance at or above the 25th percentile (the model-adjusted performance level). These values were set using the performance ranges presented in DOL's Guide for Setting JTPA Title II-A Performance Standards for PY 88.

Example of Policy. Illinois used the lower and upper limits of the tolerance range applied to the model-adjusted standard to distinguish failing to meet, meeting, and exceeding a standard. Performance below the lower level of the tolerance range constituted failure to meet, performance within the tolerance range constituted meeting, and performance above the range constituted exceeding the standard.

Effects of Alternative Definitions of Exceeding and Failing to Meet Individual Standards

States' choices of how to define exceeding and failing to meet individual standards do not themselves affect SDA behavior differently. However, states that choose Option A, a single performance level to separate failing to meet from exceeding, are still faced with the problem of distinguishing marginally adequate performance from exemplary performance. As a result, these states are more likely to place substantial emphasis on exceeding standards in their formula for calculating the incentive amounts. As we discuss in detail in Section C, policies that emphasize exceeding standards have the unintended effects of reducing service to the hard to serve and reducing provision of basic skills training.

States that set up ranges for failing, meeting, and exceeding standards often are less likely to adopt formulas that continuously reward increasingly higher performance with increasingly higher incentive payments. Thus, this mechanism can be viewed as an alternative way to distinguish marginally adequate from exemplary performance that does not lead to strong emphasis on exceeding standards.

2. Defining Exceeding Performance Standards Overall

Options for Overall Performance

After determining whether SDAs have exceeded individual standards, the next step is to determine whether SDAs' performance over all standards is sufficient to be rewarded. Three approaches have been used by states:

A. A minimum number of standards that must be met or exceeded.

B. A minimum number of standards with the provision that certain core standards must be met or exceeded.

C. A minimum score on an index combining performance over the standards.

Because the federal standards have been reduced from 12 (with states selecting 8) in PY 88/89 to a mandatory 6 for PY 90/91, states will need to revise their incentive policies, particularly the minimum number of standards or the core standards required to receive incentive awards. In developing new policies, states should be careful to meet the federal requirement that incentives be given to SDAs exceeding <u>all</u> of the federal standards. Thus, the number of standards that must be met to qualify for incentives cannot exceed the number of federal standards (6 in PY 90/91), and state standards cannot be used as core standards that must be met to receive incentives.

Option A: Setting a Minimum Number of Standards That Must Be Met or Exceeded

Intentions of Policy. States require meeting a high number of standards to promote overall program success and limit distribution of incentive awards to an "elite" set of SDAs with exemplary performance. States require meeting fewer standards to allow SDAs flexibility to trade off performance among the standards, thereby allowing SDAs to focus programs to meet local needs and goals.

Past Experience. In PY 88, 13 states had no gate based on performance; in these states, <u>SDAs exceeding just one standard could get an incentive award</u>. Thirty-one states required that a minimum of 4 to 8 standards be met. The typical state required that five (i.e., more than half) standards be met; however, 7 states required that <u>all eight federal standards be met</u> before an SDA could qualify for any incentives.

Example of Policy. In Idaho, SDAs must have exceeded five of the eight federal standards to be eligible for incentive awards. The state did not identify specific standards that must be exceeded; any five standards were acceptable.

Option B: Requiring That Core Standards Be Exceeded

Intentions of Policy. States establish core standards to emphasize specific outcomes, as discussed in Section A above. The greater the number of standards in the core, the less an SDA's flexibility to trade off performance among the standards.

Past Experience. In PY 88, 9 states established three to five core standards that must be met or exceeded. These states often required meeting or exceeding an additional number of unspecified standards as well. The typical policy was meeting or exceeding at least five standards, including three core standards.

Example of Policy. Virginia's incentive award policy required SDAs to exceed five of the eight selected federal performance standards to be eligible for an incentive award. Further, three of the five standards had to be the adult entered-employment rate, the adult welfare entered-employment rate, and the adult cost per entered employment. SDAs that failed to exceed the three core standards were ineligible for an incentive award.

Option C: Minimum Score on a Composite Index of Performance

Several states have created a composite index of performance that sums the extent to which an SDA has exceeded its performance standard (typically the percentage by which each standard is exceeded) across all measures. (Composite indexes are discussed in detail below.) These states then set a minimum level for this index that SDAs have to meet to qualify for incentives.

Intentions of Policy. States use a minimum level on a composite index to allow SDAs flexibility. As long as the SDA's overall score meets the minimum level, it is allowed to trade off exemplary performance on one standard with merely adequate performance on another.

Past experience. Twenty-four states used a composite index of performance in PY 88. Most of these states required that the overall score be positive, so that, across all standards, the amount by which an SDA exceeded performance standards was greater than the amount by which it failed to meet standards.

Example of Policy. Missouri developed a composite index of performance to distribute incentive awards. For each of the eight federal standards, the state calculated the percentage by which the SDA exceeded or failed to meet the standard. For each SDA, the overall average was then calculated by summing the difference between performance and the standard for each federal measure and dividing by 8. SDAs with an overall average of zero or less were ineligible for incentive awards.

Effects of Alternative Criteria for Exceeding Standards Overall

The difference between these three options is the extent to which the options emphasize specific standards. As discussed above, establishing core standards does increase SDAs' performance on those outcomes. The intended and unintended effects of emphasizing different outcomes were presented in Section A.

Setting a minimum number of standards that must be exceeded is neutral with respect to the different standards and thus gives SDAs flexibility in how they meet this criterion.

Although nominally neutral with respect to different standards, establishing a composite index of performance has inadvertently given more emphasis to standards that are easier to exceed by a wide margin. In the past, this approach has given greater weight to the cost standard, resulting in substantial unintended effects. Among the six federal standards for PY 90, this index gives greater weight to youth measures, particularly the youth employability enhancement rate, because this measure is easier to exceed by a wide margin than, for example, the earnings at follow-up measure.

Regardless of which option is chosen, the number of standards required (or the level of the composite index that must be achieved) has the major influence on SDA behavior. Requiring that a large number of standards be exceeded is a policy that places a strong emphasis on performance. Section C presents the effects of such policies, which tend to discourage service to the hard to serve and reduce provision of basic skills training.

Further, requiring that a large number of standards be exceeded to qualify for incentives has the intended effect of increasing performance on termination-based measures, although the effect on follow-up performance is much weaker. Further, requiring that a large number of standards be exceeded has a particularly strong effect in discouraging service to welfare recipients. States that want to encourage SDAs to coordinate services with the JOBS program or to serve welfare recipients in general, therefore, should avoid a policy requiring that a large number of standards be exceeded before SDAs qualify for incentives.

C. CALCULATING INCENTIVE AWARDS

The third major element of incentive policies is the procedure used to calculate incentives for those SDAs that qualify for awards. Simplicity is the key. Incentive systems are most effective in motivating SDA behavior when they can be easily understood by SDA staff. Complicated policies are subject to unintended effects, both because they do not clearly convey state goals to SDAs and because they may contain hidden incentives not intended by the state.

States generally made tradeoffs among three goals in choosing their policies for calculating incentive payments. First, some states wanted to distinguish marginally adequate performance from superior performance in awarding incentives. Second, some states viewed incentive payments as funds to help buffer against declining 78% funding and so generally wanted to maximize the amount of incentive funds that SDAs received. Third, some states wanted SDAs to be able to predict how much incentive funding they would receive so that the SDAs could better plan how to use those funds. These considerations led to a wide diversity in procedures to calculate incentive funds.

States must make choices about several elements in their incentive calculation policies:

- Calculation approach.
- Amount that SDAs receive for marginally exceeding their standards.
- Procedures for rewarding performance beyond the standard.
- Whether there is a cap on rewarded performance beyond which no additional incentives are received.
- Whether SDAs compete for the size of the incentive award.
- Whether adjustments are made for the size of the SDA.

The options for each of these policies are presented below. It is difficult to separate the independent effect of each of these options on participants served, services offered, and performance achieved. In general, however, options that overemphasize exceeding standards have substantial unintended effects. The end of this section summarizes the effects of such policies and presents examples of combinations of policies that have particularly strong unintended effects.

Policies for Calculating Incentives

1. Calculation Approach

Options for the Calculation Approach

States used two basic approaches to calculate incentive awards:

A. Separate reward pool for each standard.

B. Composite measure of performance across all standards.

Most states use one of these procedures, although a few use both separate pools and a composite measure for different portions of their incentive funds. These basic approaches are discussed below.

Option A: Separate Reward Pool for Each Standard

Many states have created a separate pool of incentive funds for each federal and state standard. By rewarding performance on each standard separately, the incentive formula becomes relatively easy for both state and SDA staff to understand.

Having a separate pool of incentive funds for each standard also makes explicit the weight that is placed on each standard. Thus, standards can be weighted by setting aside an appropriate percentage of incentive funding for each standard.

Although rewards for performance on each standard can be calculated through any of the methods discussed below, the development of a separate pool of incentive funds for performance on each standard is easier and less trouble prone than developing composite formulas.

Intentions of Policy. Some states have chosen separate pools of incentive funds to highlight the different weights placed on different standards. States that view incentive funds as supplementary funding for all SDAs are also more likely to use separate pools so that SDAs will be able to predict more easily how much in incentive funds they will receive.

Past Experience. In PY 88, 18 states established a separate pool of incentive funds for each standard.

Example of Policy. New Hampshire developed separate reward pools for each standard based on the following weights:

Adult entered-employment rate	10%
Adult average wage at placement	8
Adult welfare entered-employment rate	10
Youth entered-employment rate	15
Youth employability enhancement rate	1
Adult follow-up employment rate	18
Adult follow-up weekly earnings	20
Adult welfare follow-up employment rate	18

The available incentive award funds were divided among the performance standards according to the weight distribution above. Hence, New Hampshire encouraged SDAs to secure and retain quality placements for participants by placing heavy emphasis on the follow-up standards.

Option B: Composite Measure of Performance

An alternative is to award incentives based on a composite measure of performance across all the standards. Composite measures tend to be more complicated to develop, and the implied incentives can be difficult to understand. Consequently, a number of states have developed formulas that do not truly reflect the intended state goals.

Many states have made an explicit decision to weight standards equally and used the unweighted sum of the percentages by which each standard is exceeded as the composite performance measure.

Although intuitively appealing, this procedure has the unintended effect of emphasizing standards that are easy to meet by a large percentage. The cost standards were much easier to exceed by a large percentage in PY 88/89 than any of the other standards except the youth employability enhancement rate. Thus, this policy unintentionally led to an overemphasis on cost standards. Because cost standards can no longer be used to determine the size of incentive awards, the problem raised by this formula is considerably reduced. However, some differences among standards remain.

To show these differences, the percentage above standard was calculated for an SDA performing at the 75th percentile on every standard:

	% Above Standard
Adult follow-up employment rate	14
Adult follow-up weekly earnings	15
Welfare follow-up employment rate	24
Welfare follow-up weekly earnings	19
Youth employability enhancement rate	65
Youth entered-employment rate	36

These data show that it is much easier to exceed the youth measures (especially the employability enhancement rate) by a large percentage than any of the other measures, while it is somewhat easier to exceed the welfare measures by a large percentage than the adult measures. States using a composite measure that does not explicitly weight standards differently should recognize, therefore, that they are implicitly placing high weight on the youth outcomes and low weight on the adult outcomes. Appendix A presents a method to correct for this unintentional weighting.

Intentions of Policy. Some states that view incentive funds primarily as rewards for exemplary performance have chosen a composite-index approach. Others use this approach because they intended to treat each standard equally and allow SDAs to trade off performance among the different standards.

Past Experience. Twenty-four states used a composite measure of performance to calculate incentive funds in PY 88.

Example of Policy. Rhode Island established a composite measure to evaluate SDA performance as follows:

- The state calculates the percentage difference between actual performance and the standard for each of the eight performance measures for each SDA.
- The positive and negative percentage differences for each of the eight standards are summed to an SDA "net score."
- The net scores for the three SDAs are totaled and equated to 100%.
- Each SDA's positive net score is expressed as a percentage of the total score, thus representing the SDA's competitive share of available incentive award funds.

Effects of Alternative Calculation Approaches

The choice of establishing a separate pool for each measure or of using a composite measure does not in itself affect SDA behavior. However, separate pools make the weights placed on standards more explicit and visible to SDAs and, therefore, are likely to communicate more clearly the state's priorities.

2. Amount Received for Marginally Exceeding Standards

States next must decide how the amount of incentive awards will be tied to the degree to which performance standards are exceeded. This is a very important policy decision because a strong emphasis on exceeding standards can result in substantial unintended effects on the types of participants enrolled and on the intensity of services provided in JTPA.

An important consideration is whether SDAs will receive any incentive awards for marginally exceeding their standards, that is, for performing at a level slightly above the level defined as exceeding standards.

The current JTPA legislation states that incentives must be based on the degree to which the standards are exceeded. If states wish to reduce the emphasis on exceeding standards by awarding incentives for just marginally exceeding the standards, they can meet this legislative requirement by awarding a portion of incentive funds for marginally exceeding standards ("base" awards) and an additional portion for higher levels of performance ("bonus" awards).

Intentions of Policy. The portion of incentive funds awarded for marginally exceeding standards reflects the state's emphasis on meeting standards relative to exceeding standards. Some states have chosen to award at least a portion of incentives for marginally exceeding standards to reduce the risk to SDAs of serving hard-to-serve groups. If SDAs only just exceed standards, they will still receive incentive awards. Other states have chosen this policy to make sure that SDAs receive maximum incentive funds to supplement their 78% funds.

Past Experience. In PY 88, 30 states awarded a portion of incentive funds for marginally exceeding standards. Among these states, the amount awarded for marginally exceeding ranged from 5% to 100% of incentive funds, with the typical state awarding 50%.

Example of Policy. Texas rewarded SDAs that marginally exceeded their standards. In this system, 50% of available incentive awards were distributed to SDAs with performance marginally (less than 10%) above the standard. Thirty-five percent of incentive funds were distributed to SDAs with performance between 10% and 14.9% above the standard, and the remaining 15% were awarded to SDAs with performance 15.0% or more above the standard. Although this incentive policy rewards SDAs with higher levels of performance, half of all available incentive funds are distributed to SDAs with marginal performance as a base award.

Effects of Policy. Awarding a substantial amount of incentive payments based on marginally exceeding performance standards reduces the emphasis on exceeding standards. As discussed below, policies that reduce the emphasis on exceeding performance standards increase service to the hard to serve and increase the provision of more intensive services.

3. Rewarding Performance Beyond the Standard

Options for Rewarding Performance

Because of the current legislative requirement that incentives be awarded based on the degree by which the SDAs exceed their performance standards, states have developed procedures to reward performance beyond the standard. States have chosen two approaches to awarding incentives for performance beyond the standard:

A. Tiered systems

B. Continuous systems.

Each of these approaches is discussed below.

Option A: Tiered Systems

Some states use a step function or tiered system for rewarding performance beyond the standard. Tiered systems can be used with either a separate award pool for each standard or with a composite performance index. (Tiered systems also naturally lend themselves to rewarding performance for marginally exceeding the standard and to capping rewarded performance, although neither is a necessary consequence of tiered systems.)

Performance in the lowest tie: (possibly at a level marginally exceeding the standards) results in the SDA's earning a certain proportion of its total potential reward. Performance at one or more intermediate levels increases the SDA's share of its total potential reward. Performance at or beyond a final performance level (the "cap") results in the SDA's having maximized its incentive award for that standard.

The tiered system is often used in combination with a separate pool of incentive funds for each standard but it can also be used with a composite measure of performance as well. For example, one way to use a tiered system with a composite index is to award "points" for each standard based on the tier achieved and sum those points over all standards. Incentive awards would then be based on total points.

The boundaries between the tiers can be set using several approaches:

- The performance ranges given in the DOL technical assistance guide. For example, the lowest tier could range from the standard to the 50th percentile of performance, the second from the 50th to 75th percentiles, and the upper tier could be the 75th percentile and above.

- A given percentage above the standard. For example, one state that used a three-tiered award system in PY 86 awarded 50% of the possible incentive award on each standard to SDAs with performance between 100% and 110% of their standard. SDAs with performance between 110% and 120% of their standard received 80% of their possible incentive award. The incentive award formula was capped at 120%, so that SDAs that performed at or above 120% of their standard earned 100% of their possible incentive award.

Intentions of Policy. States chose a tiered approach for several reasons. First, this approach made it easier for SDAs to predict how much in incentive funds they would receive because they could estimate in which range their performance would be likely to fall. Second, states that wanted to make it easier for SDAs to earn their maximum incentives used the tiered approach and set relatively low levels of performance for the upper tier.

Past Experience. In PY 88, 19 states used a tiered approach to reward performance beyond the standards.

Example of Policy. Minnesota uses a tiered performance award system with tolerance factors to establish the tiered boundaries. Separate pools of equal size are created for the eight federal measures from the available incentive funds. Incentive awards are based on the SDA's size and the extent to which the SDA exceeds the standard. A three-tiered distribution approach has been established in which increments of 60%, 30%, and 10% of available incentive funds are awarded. SDAs that perform within the first tier receive 60% of the award; those that perform within the second receive 90% of the award; and those that perform in the third tier receive the full award.

Option B: Continuous Systems

The second approach to rewarding performance beyond the standard is to use a continuous measure of performance. Common measures include:

- The percentage by which the standard is exceeded
- The amount by which the standard is exceeded
- The percentage relative to the best-performing SDA.

Intentions of Policy. Some states have intentionally chosen a continuous award system to maximize incentive awards to exemplary performers. Other states have chosen this approach as a technical solution to the legislative requirement that incentives be based on the degree to which standards are exceeded. In these states, the emphasis on exceeding standards is unintended.

Past Experience. Twenty-three states chose a continuous reward system in PY 88.

Example of Policy. North Carolina has established a continuous incentive award system for SDAs that exceed five of the eight performance measures. A performance index is created for each SDA by calculating the percentage by which each standard was exceeded, summing over the eight standards and dividing by 8. The sum of the indexes is then totaled. The SDA share of available incentive awards is determined by dividing the SDA index by the sum of the indexes across all SDAs and multiplying this fraction by the available award pool.

Effects of Alternative Calculation Procedures

Tiered systems are easy to understand and lend themselves to designing incentive award systems that do not overemphasize exceeding standards. The extent of emphasis on performance depends on where the tier boundaries are set and how the award increases as performance steps from one tier to the next. The disadvantage of the tiered approach is that two SDAs can receive very different awards with similar performance if they perform just above and just below a tier boundary.

The problem with using a continuous system is that by itself it provides no incentive payments to SDAs just marginally exceeding a standard, and it places substantial emphasis on exceeding standards by providing increasingly higher incentive awards for increasingly higher performance.

Both rewards for marginally exceeding standards and capping of rewarded performance can be added to continuous formulas. For example, SDAs could be awarded 10 points for just exceeding the standards plus one point for every percent the standard was exceeded. Alternatively, a separate pool of incentive funds can be used to reward SDAs marginally exceeding standards. Capping can be accomplished by, for example, giving no additional incentives for performance above the 80th percentile.

4. Caps on Rewarded Performance

Another important element in calculating incentives is whether there is some maximum amount of performance above the standard that will be rewarded. Performance above that amount would not result in any additional incentives.

Intentions of Policy. Some states place a cap on rewarded performance to reduce the emphasis on overperformance.

Past Experience. In PY 88, 21 states capped rewarded performance, with the average cap about 16% above the standard.

Examples of Policy. The distribution of incentive award grants in Oregon is an example of a tiered system with a cap. To illustrate Oregon's system, the performance needed to receive incentive awards for the adult entered-employment rate (AEER) and welfare entered-employment rate (WEER) are presented below:

		Percent of Full Incentive Award				
		80%	85%	90%	95%	100%
	Standard	Performance				
AEER	68%	> 68 to 71	> 71 to 73	> 73 to 76	> 76 to 79	> 79
WEER	56%	> 56 to 61	> 61 to 66	> 66 to 71	> 71 to 76	> 76

SDAs received their full incentive award at the 100% performance level indicated above. Excessive overperformance was not rewarded through this policy.

Colorado designed a continuous incentive reward system with a cap. This policy set aside a portion of available incentive funds for each standard based on a weighted distribution process. Colorado defined the range of rewardable performance for PY 88 and 89 as a percentage of the model-adjusted standard; it extended from the standard to a level 10% above the standard. Performance at a level above the cap did not result in additional incentive funds. Incentive awards were based on actual performance within the range. For example, if an SDA's standard for weeks worked at follow-up was 8 weeks, the range of rewardable performance for that SDA extended from 8 to 8.8 weeks. If the SDA just met its standard (8 weeks), it was ineligible for any incentive awards for that standard. If the SDA's performance was 8.4 weeks, the SDA was eligible for half of its award pool. Performance at a level of 8.8 weeks or higher resulted in the SDA's receiving its full award.

Effects of Policy. Capping performance reduces the emphasis on exceeding standards by eliminating the incentive to perform beyond the cap.

5. Competition Among SDAs

Formulas for calculating incentive awards can be structured to incorporate varying degrees of competition among SDAs. In a noncompetitive policy, an SDA's award is not affected by the performance of other SDAs in the state. Thus, the SDA can calculate its award without knowing the performance of other SDAs. In a noncompetitive system, the portion of an SDA's maximum incentive awards not earned by the SDA is used for purposes other than incentive awards (e.g., technical assistance, service to hard-to-serve groups).

In a moderately competitive system, awards not earned by SDAs are distributed to SDAs based on performance. In this case, the SDA can determine its base award without knowing the performance of other SDAs, but not its secondary award from the unearned pool.

In a highly competitive system, even the base award depends on the performance of other SDAs. Policies that distribute funds based on the SDA's share of total scores on a composite index and policies that compute performance relative to the best SDA are highly competitive.

Intentions of Policy. Some states have intentionally emphasized competition among SDAs so that the awards represent exemplary performance among SDAs in the state. Other SDAs have chosen a noncompetitive process so that SDAs can better predict how much in incentive funds they will receive and thus can better plan for the use of those funds.

Past Experience. In PY 88, 18 states had noncompetitive incentive award systems, while 27 states had either highly competitive or moderately competitive systems.

Examples of Policies. Wisconsin's incentive award system uses a noncompetitive tiered approach to determine the amount of an SDA's incentive award, with a moderately competitive approach used to distribute unearned funds to SDAs with outstanding performance. To be eligible for an award, an SDA must first exceed three adult and two youth standards. Fifty percent of the full SDA award will be distributed to SDAs that exceed their standards by less than 5%. SDAs that exceed their standards by at least 5% but less than 10% receive 75% of their full awards, while SDAs that exceed their standards by 10% or more are eligible for the full award.

Funds not distributed by this noncompetitive base system are allocated equally among SDAs that exceeded performance by 10% or more. If none of the SDAs exceed their standards by more than 10%, the remaining funds are distributed equally among those SDAs that exceed standards by 5%; and if none exceed 5% of standards, the remaining funds will be distributed to those SDAs exceeding their standards.

Effects of Policy. Competitive incentive formulas increase the emphasis on exceeding standards.

6. Adjustments for Size of SDA

Intentions of Policy. States that adjusted for SDA size usually wanted to make the incentive awards of equal importance to SDAs of varying size in the state, by making it possible for them to supplement their 78% formula funds by equal percentages with equivalent performance. States that did not adjust the incentive awards for SDA size usually wanted to make the absolute size of the potential 6% award for small SDAs large enough to be attractive to them. Several of these states capped the size of the maximum possible award an SDA could earn (e.g., at 50% of 78% formula funding), so that a small SDA would not receive a 6% award totally out of proportion to its 78% allocation.

Past Experience. In PY 88, 29 states based all of their 6% incentive awards on SDA size; 9 states states made no adjustment for the size of the SDA; while 6 used a mixed approach.

Example of Policy. One of the two primary factors Washington State used to allocate incentive awards was the size of the SDA. State policymakers provided the following justification for this approach in the GCSSP:

> Size has been included in the formula because it takes more money for a large SDA to improve its performance by a given amount than it does for a small SDA. Large SDAs would have to place more participants to increase their entered employment rate by one percent than would a small SDA.

Similar explanations were provided by other states that chose to allocate available incentive funds based on the size of the SDA's Title II-A allocation.

Effects of Policy. Adjustments for SDA size make performance equally important for all SDAs, although very small SDAs may find potential awards too small to use effectively. Using no adjustment for SDA size can make performance incentives essentially irrelevant for the largest SDAs in the state.

Effects of Emphasizing Exceeding Standards

Several options available to distribute incentive awards place an emphasis on exceeding performance standards. States often have chosen several of these options and as a result may have unintentionally placed an undue emphasis on exceeding standards at the expense of other program goals.

Policies that place a strong emphasis on high performance include:

- Requiring that a large number of standards be exceeded to qualify for incentive awards.
- Not awarding any incentives for marginally exceeding standards.
- Rewarding higher performance with greater incentives without any cap on rewarded performance.
- Using a competitive system to reward performance so that an SDA's incentive award depends on the performance of other SDAs in the state.

The effects of placing a strong emphasis on exceeding standards are summarized in Exhibit II-3. Emphasizing exceeding standards does increase performance on employment-related outcomes. This is particularly true for standards for entering employment at termination. The effects on follow-up employment measures are smaller. Emphasizing exceeding standards has no significant effect on the earnings measures. Thus, there is evidence that these policies increase the quantity but not the quality of placements.

Emphasis on exceeding standards also has substantial unintended effects on the types of individuals participating in JTPA and the services provided. Strong emphasis on exceeding performance standards reduces services to welfare recipients and minorities for both adults and youths and reduces services to older adults and to in-school youths. Further, these policies increase the employment focus of training, reducing the number of adults and youths who receive basic skills remediation through JTPA.

A hypothetical example of an incentive policy that would place the maximum emphasis on exceeding standards would be one in which:

- SDAs must exceed all performance standards to qualify for incentives.

Exhibit II-3

SUMMARY OF EFFECTS OF EMPHASIS ON EXCEEDING STANDARDS

Intended Effects	Unintended Effects
Increases performance on termination-based employment measures	Reduces service to adults who are welfare recipients, minorities, and older workers
Somewhat increases performance on follow-up employment measures	Reduces service to youths who are welfare recipients, minorities, or in school
	Reduces the proportion of participants receiving basic skills training for adults and youths

- A composite measure is used that computes the percentage by which the SDA exceeds each standard and sums across all standards. The amount of incentive received is based on the score on this index. SDAs that marginally exceed a standard, therefore, receive little if any incentive funds for that standard.
- There is no cap on rewarded performance. SDAs that score increasingly higher on this index receive increasingly more incentive funds.
- The amount of incentive funds each SDA receives is determined competitively. The proportion of incentives an SDA receives is determined by dividing its index score by the sum of all scores for SDAs in the state. Thus, even if an SDA exceeded all standards by a wide margin, if other SDAs perform at an even higher level, that SDA's incentive funds are reduced.

The above example represents an extreme case, not an actual state policy. However, states with incentive policies closely resembling this example should carefully consider the unintended effects that could result by placing such a strong emphasis on exceeding performance standards.

D. CONDITIONS PLACED ON INCENTIVE FUNDS

The final major element in the development of incentive policy is to determine whether any special conditions should be placed on incentive funds, compared with regular 78% funds. Two related policies have been established by states:

- Exempting incentive funds from performance standards
- Requiring incentive funds be used for specific purposes.

1. Exempting Incentive Funds from Performance Standards

Beginning in PY 88, DOL established the policy that states may exempt incentive funds in the application of performance standards.

Thus, states may adopt the policy that individuals served with incentive funds will not be included in calculating the SDA's performance. The characteristics and outcomes of those individuals, however, must be reported on the Job Training Annual Status Report so that DOL will have an accurate account of the types of individuals served with Title II-A funds. States that chose this policy either applied the exemption of incentive funds statewide or allowed SDAs the option of exempting these funds from performance standards.

Intention of Policy. States have chosen to exempt incentive funds for two reasons. First, they want to encourage SDAs to take the risk of establishing innovative programs or serving hard-to-serve groups and believe that exempting some funds from performance standards will allow SDAs to set up such programs and see if they can be successful. Second, some states feel that incentive funds will be more valuable to SDAs if SDAs have maximum flexibility in how the funds are used.

Past Experience. In PY 88, 20 states adopted a policy to exempt incentive funds from performance standards: 10 states excluded incentive funds for all SDAs in the state, and 10 gave SDAs the option of excluding incentive funds from performance standards.

Examples of Policy. Tennessee had a statewide policy exempting programs funded with incentive funds from performance standards. This policy was instituted to encourage SDAs to serve higher-risk groups. Examples of programs supported with exempted 6% funds include training for teenage parents and basic skills training for dropouts.

Utah gave SDAs the option to include or exclude 6% funds from performance-standard calculations. Three of the nine Utah SDAs opted to exclude the incentive awards from performance for PY 88/89. Restrictions were not placed on the use of exempted 6% funds.

Effects of Policy. SDAs have reacted to the policy of exempting incentive funds from performance standards in a variety of ways. Many SDAs have used exempted funds to establish programs for riskier participants or to fund innovative programs that need time to work out problems. Examples include an alternative high school for at-risk youth and an innovative program to help participants establish their own small businesses. Other SDAs have made use of the flexibility of the funds to purchase computerized equipment for learning centers.

Some SDAs have not reacted differently to the fact that incentive funds are exempt from performance standards. They use incentive funds to supplement 78% funding declines to keep programs funded that otherwise would have been cut. A few SDAs, however, have used exempted incentive funds to support politically influential providers that were not otherwise achieving performance standards.

Overall, the impact of exempting incentive funds from performance standards is to increase the number of hard-to-serve individuals served, particularly welfare recipients.

2. Requiring Incentive Funds to Be Used for Specific Purposes

Intentions of Policy. States that adopted the policy to exempt incentive funds added the requirement that the funds be used for specific purposes to guard against unintended effects of the exemption policy, such as the funding of underperforming providers.

Past Experience. In PY 88, 20 states imposed restrictions on the use of incentive funds. Virtually all these states required incentive funds to be used for serving hard-to-serve groups, and 8 states also required that these funds be used for specific types of training, most commonly basic skills remediation.

Examples of Policy. Nevada has a statewide policy that exempts incentive funds from performance standards but requires the awards to be used for hard-to-serve groups with multiple barriers to employment. Examples of programs funded with exempted incentive funds include the following:

- Teen Parent Program--Participants were required to be single heads of household, 18 to 21 years of age, with at least one dependent child.
- Staff Specialist--Funds supported outreach and recruitment in high- unemployment areas for statewide youth alternative education programs.
- Remedial Education Programs--Supported tutors for youths at risk of dropping out in rural school districts.
- Juvenile Justice--Provided supportive assistance and training alternatives to youths in the juvenile court system.

New Hampshire's incentive policy does not exclude incentive funds from performance standards but does require incentive awards to be used to serve the high-risk JTPA population.

Effects of Policy. Adding the requirement of how incentive funds should be used did tend to reduce the unintended effects that might result from exempting those funds from performance standards. Thus, SDAs in states that required funds to be used for services to the hard to serve were more likely to fund innovative programs and less likely to fund underperforming but influential providers.

III EXAMPLES OF INCENTIVE POLICIES THAT SUPPORT STATE GOALS

A. INTRODUCTION

The premise of this guide is that incentive policies can be a powerful tool for states to further their JTPA program goals. The previous section presented the options used by states in developing aspects of their incentive policies and the effects of those options. This section presents examples of how some states have chosen among these options to develop incentive policies to further JTPA program goals and priorities.

These examples show how a coherent set of program objectives underlie the development of incentive policies in these states, and how the design elements described in Section II can work together. These policies are not presented, however, as models appropriate for all states. The purpose of this section is not to encourage states to develop identical policies but to help states develop incentive policies appropriate to their own policy objectives.

The examples presented are varied in terms of their policy goals and incentive strategies. Each of the states, however, has attempted to achieve a balance between rewarding good performance and encouraging SDAs to address the employment barriers of hard-to-serve groups.

B. GEORGIA: REWARD COMMENDABLE PERFORMANCE WITHOUT UNINTENDED EFFECTS

Policy Objectives

Georgia's performance standards and incentive policies have been designed to reward commendable performance, rather than minimally acceptable performance. However, the state has carefully designed its incentive award policy to prevent incentives from driving the JTPA system toward higher performance at the expense of other program goals.

The key elements of the state's strategy for furthering these goals include:

- Establishing a large range of performance between failing to meet the standards and exceeding the standards, with the expectation that, while all SDAs will meet the standards, not every SDA will exceed most or all standards.
- Creating a tiered system for allocating rewards that caps the award for exceeding each standard at a specific performance level, limits competition among SDAs, and ensures that each standard receives equal weight in practice as well as in theory.
- Assigning a zero weight to the cost standards in the incentive allocation formula to prevent an emphasis on quantity of services rather than quality of services.

Emphasis on Different Outcomes

During PY 88, Georgia selected 10 of the 12 possible federal standards. Eight of these standards were implemented as mandatory federal standards (the basis for potential sanctions), and two standards that had not previously been implemented in Georgia were implemented as state standards. Starting in PY 88, Georgia gave the cost standards zero weight. The remaining eight standards were given equal weight in allocating incentive awards among SDAs.

Other than designating two additional federal standards, no state performance standards were implemented by Georgia for PY 88, although expenditure rates were incorporated into the incentive formula.

Qualifying for Incentive Awards

Three ranges of performance were defined: failing to meet, meeting, and exceeding each standard. SDAs with performance below the model-adjusted standard (approximately the 25th percentile of the national performance) were considered to have failed to meet the standard. Those with performance above the model-adjusted standard but below an upper level were considered to have met the standard. This upper level was set to be equivalent to performing above the 50th percentile of national performance. Only SDAs performing above the 50th percentile were considered to have exceeded the standard.

To qualify for incentive awards, an SDA must meet at least six of the remaining eight standards and must exceed at least one standard.

Calculation of Incentive Awards

The state used a tiered approach to reward performance on each standard. SDAs earn one point for exceeding each standard (above the 50th percentile) and a bonus point for performing at a level greater than the 75th percentile. Thus, rewarded performance is capped. By using a tiered system based on percentiles of national performance to develop a composite measure and by capping rewarded performance, Georgia avoids placing unintended emphasis on those standards that are easier to exceed by large amounts.

The incentive awards are allocated among SDAs relative to the total number of performance points they have earned across all standards except the cost standard. The size of the incentive award received by each SDA is adjusted for the size of the SDA (measured by 78% allocation) and the rate of JTPA expenditures.

Conditions Placed on Incentive Funds

The state places no restrictions on how SDAs can spend their 6% incentive awards. The state has not chosen to exempt 6% incentive funds from the performance standards.

C NEW YORK: FOCUS EFFORTS ON LONG-TERM WELFARE RECIPIENTS AND ENCOURAGE INTENSIVE SERVICES

Policy Objectives

In PY 89, New York reshaped its incentive awards policy to further a state goal of serving long-term welfare recipients. These changes in the incentive policy shifted the state's strategy for providing leadership to SDAs in two ways:

- It focused attention on the single hard-to-serve group of highest priority rather than establishing many different hard-to-serve target groups.
- It emphasized that the bulk of the 78% formula Title II-A allocation, not just incentive funds, should be used for programs for the hard to serve.

Among the key elements of the state's current design strategy are the following features:

- Establishment of a new incentive policy that distributes 50% of available incentive funds to SDAs for demonstrated service and performance to long-term AFDC recipients (and other hard-to-serve adults and youths based on SDA proposals) in 78%-funded programs.
- Deemphasis of cost standards through zero weighting in the incentive award formula, to encourage the provision of intensive services.
- Design of a noncompetitive allocation formula that caps incentive awards at 110% of each standard to deemphasize performance in excess of the standards.

- SDA option to exempt incentive funds from performance standards to encourage SDAs to undertake innovative projects for hard-to-serve groups.

Emphasis on Different Outcomes

For PY 88, New York State chose the seven termination-based performance standards that had been used previously and the youth employability enhancement rate. Before PY 89, the federal standards were given equal weight in the incentive award allocation formula. Beginning in PY 89, the cost standards were given a zero weight to encourage more intensive services, and all other federal standards used for the incentive awards were weighted equally. Half of the incentive awards were based on performance on these measures.

The state also established five additional standards for service to and outcomes for long-term AFDC recipients and for target groups that the SDAs proposed as a local priority. The remaining half of the incentive funds were based on performance on these standards:

- For long-term AFDC recipients (defined as 24 months or longer on the AFDC rolls) and other hard-to-serve adults (based on SDA proposals):
  - Level of enrollment relative to incidence in eligible population (one-sixth weight).
  - Placement rate (two-sixths weight).
  - Average wage at placement (three-sixths weight).
- For hard-to-serve youths (based on SDA proposals):
  - Level of enrollment relative to incidence in eligible population (one-sixth weight).
  - Positive termination rate (five-sixths weight).

Qualifying for Incentive Awards

To qualify for an award, an SDA must have a positive average performance deviation from the standard across all the federal standards, and may not underachieve by 20% or more on any two standards.

Calculation of Incentive Awards

The state has designed primarily a noncompetitive procedure for awarding incentives for the federal standards. A separate pool is created for each standard, and within that pool, a separate potential award is set aside for each SDA, weighted by SDA size. Each SDA tries to earn its full potential share. One-half of the maximum award is earned by performance that marginally exceeds the standard; three-fourths of the maximum award is earned by performance that exceeds the standard by at least 5% and less than 10%; the full award is earned by performance that exceeds the standard by at least 10%.

Because not all SDAs earn their full potential share, a second distribution is made of 50% of the unearned awards to those SDAs that exceeded the standard by 10% or more. This additional allocation is distributed in proportion to the SDA's allocation. (The remaining unearned awards are used for technical assistance activities.)

The hard-to-serve incentive pool is allocated based on a tiered distribution process with a separate reward pool for each of the five hard-to-serve measures. The allocation of the hard-to-serve incentive funds between the adult and youth measures is based on the relative number of adult and youth hard-to-serve participants.

Conditions Placed on Incentive Funds

All incentive awards can be used for any allowable activity. The state now permits SDAs to decide whether or not to exclude all incentive awards from the performance standards. This policy is intended to encourage SDAs to use incentive awards (both funds earned for attaining performance standards and hard-to-serve incentive funds) for special projects.

D. PENNSYLVANIA: PROMOTE SERVICE TO THE HARD TO SERVE USING A VARIETY OF TOOLS

Policy Objectives

Pennsylvania has adopted a number of different strategies to promote services to hard-to-serve groups. The performance standards system is only one policy tool used in Pennsylvania to promote services to groups with multiple employment barriers.

Another important policy tool is the use of state 8% funds and state Title II-A administrative funds to directly support a series of state-initiated demonstration programs (many of which are cooperatively established and funded with the state Department of Public Welfare and the state Department of Education). Among the demonstration programs currently under way are the Youth Urban Service Corps, the Single Point of Contact Program (oriented to welfare recipients), a demonstration program for at-risk high school students, and a demonstration program for pregnant and parenting teens.

Using the incentive allocation formula, Pennsylvania encourages services to hard-to-serve groups using two different strategies:

- It rewards SDAs that exceed their goals for services to three target groups: long-term AFDC recipients, dropouts, and teen parents.

- It requires (as mandated by the state legislature) that SDAs use their entire incentive awards for services to public assistance recipients, at-risk youths aged 14 through 21, and school dropouts.

Among the key elements of the state's incentive awards design are the following features:

- The implementation of state standards for the level of service to long-term AFDC recipients, dropouts, and teen parents, and the award of 20% of the state incentive funds based on these three state standards.
- An incentive policy that limits competition among SDAs by capping rewarded performance at 20% over the standards.
- A policy exempting all 6% expenditures and participants from the performance standards, starting in PY 88.
- A decision to delete the adult and youth cost standards because these standards were encouraging too much short-term training.

Emphasis on Different Outcomes

In PY 88, Pennsylvania implemented eight federal standards, including three follow-up standards and only one youth standard--the youth employability enhancement rate. The selected federal standards are used to distribute 80% of the incentive awards. A composite index is used that nominally weights standards equally. For PY 89, the state has decided to replace the cost per entered employment standard with the youth positive termination rate standard because the cost standard was encouraging too much short-term training. In addition, the welfare follow-up employment rate is emphasized by establishing it as a core standard that must be met to qualify for incentive awards.

The additional state standards include: service to long-term AFDC recipients, service to dropouts, and service to teen parents. These standards, used to award a 20% pool of incentive funds, are equally weighted among themselves. In addition, expenditure rates are incorporated into the incentive formula.

Qualifying for Incentive Awards

The state has defined exceeding a standard as performance at or above the lower tolerance level established by the DOL adjustment model. To qualify for an incentive award, an SDA must exceed seven of the eight standards. A required core standard for qualifying for incentive awards is the welfare follow-up employment rate.

To qualify for incentive awards on the optional state standards, an SDA must qualify for incentive awards on the federal standards. The state has defined the required service level for each hard-to-serve group in the state standards to be the incidence of that group in the SDA's eligible population.

Calculation of Incentive Awards

For PY 88, Pennsylvania used a composite formula to measure performance in excess of the federal standards. This formula sums the percentage difference between an SDA's performance and its standard. The percentage difference was capped at an average performance level of approximately 20% above each standard.

The size of an SDA's incentive award in Pennsylvania is adjusted by both SDA size and expenditure rate. The reduction in incentive award can be substantial for SDAs with low expenditure rates. No adjustment is made if the expenditure rate is at least 85%. However, expenditure rates between 75% and 84% result in a 30% reduction in the size of the incentive award; expenditure rates between 65% and 74% result in a 50% reduction in the size of the incentive award, and so forth.

Pennsylvania is considering altering its incentive allocation formula so that awards would be distributed without reference to the amount by which the standard was exceeded. This is in keeping with the state's increasing desire to promote quality services to hard-to-serve clients instead of high performance on the standards.

Conditions Placed on Incentive Funds

Pennsylvania requires SDAs to use their entire incentive award for services to one or more of three target groups: public assistance recipients, at-risk youths age 14 to 21, and school dropouts. In keeping with this policy, all 6% expenditures and participants are automatically exempt from the performance standards. However, SDAs must specify what measures of success will be used with enrollees in 6% programs.

E. KENTUCKY: REWARD PERFORMANCE MARGINALLY IN EXCESS OF THE STANDARDS AND ENCOURAGE PLACEMENT OF INDIVIDUALS FROM SEVEN TARGET POPULATIONS

Policy Objectives

Kentucky uses its incentive policy to reward performance marginally in excess of the standards and to encourage SDAs to increase the placement rate of seven target populations identified by the State Job Training Coordinating Council.

Among the key elements of the state's current design strategy are the following features:

- Deemphasis of the cost standards through elimination of the adult cost per entered employment standard.

- An incentive allocation that deemphasizes competition among SDAs and distributes the majority of the incentive awards for the federal standards for performance marginally in excess of the standards.
- The provision of state awards for "employment of target populations," including school dropouts, AFDC recipients, youths, handicapped, offenders, unemployed female single parents, and teen parents.

Emphasis on Different Outcomes

For PY 88/89, Kentucky implemented 6 adult performance standards and 2 youth standards from the 12 federal standards. The six adult standards include three termination-based standards and three follow-up standards. (This was a transitional strategy to prepare for the federal selection of the follow-up standards in PY 90.) The adult standard not selected for implementation was the cost per entered employment. The two youth standards selected were the youth employability enhancement rate and cost per positive termination. Kentucky chose to give each standard a different weight in the incentive allocation formula to emphasize priority standards.

Before PY 88, Kentucky distributed 50% of the incentive awards in response to the number of individuals served in each of seven targeted population groups. Beginning in PY 88, the state target population awards are made in response to the <u>number of individuals placed, rather than served</u>, in each of these groups. Thus, the state standards currently include an entered employment "count" for each of the following groups:

- School dropouts
- AFDC recipients
- Youths
- Handicapped
- Offenders

- Unemployed female single parents
- Teen parents.

In PY 88, the state double-weighted the dropout target group to emphasize its concern for services to high school dropouts.

Qualifying for Incentive Awards

The SDAs' standards for the federal measures were set at the lower boundary of the tolerance range. The definition of "meeting a standard" in Kentucky is performing at or above 90% of that level. The definition of "exceeding a standard" is performing above the lower level of the tolerance range.

To qualify for an award from the federal standards incentive awards pool, an SDA must meet five of the eight federal standards and exceed two adult employment standards and the youth employability enhancement rate.

Three of the seven state award pools also have criteria that must be met to qualify for targeted-population awards. To qualify for an incentive award for placing youth, an SDA must meet its youth expenditure rate requirement and, beginning in PY 89, the youth target population award will be based on the number of youth who both enter-employment and acheive a youth employability enhancement. To qualify for incentive awards for placing dropouts and AFDC recipients, an SDA must meet its equitable service goal for these two groups.

Calculation of Incentive Awards

Half of incentive funds are used to reward performance on the federal standards. These funds are allocated in two rounds. The first round is made using a separate pool for each standard according to the weight assigned to that standard. Each SDA has a predetermined share equal to each SDA's formula share of 78% funds. If an SDA earns its share--by exceeding its standard--the funds are awarded during Round 1. If an SDA fails to earn its share on a given standard, the funds are set aside to be distributed among high-performing SDAs during Round 2. Thus, Round 1 distributions are not competitive.

The second round of allocation for the federal standards is limited to the five SDAs with the highest average performance across all eight standards. A summary performance measure is created by summing the percentage by which each SDA exceeded each standard, and dividing this total by 8. The five SDAs with the highest summary scores divide any funds not distributed during Round 1, with the size of each SDA's Round 2 share determined by the size of its summary score. Although Round 2 distributions of unawarded funds tend to be small, they are highly competitive and are not adjusted for SDA size.

The remaining half of the state's incentive funds are used for awards for placement of individuals from the seven target populations. Separate pools are established for each target population. The pool for dropouts is twice as large as the pool for each of the other standards. The size of each SDA's award from each target population pool is determined by computing a per-capita award for placing an individual from that pool. This competitive formula gives substantial incentives to exceed these standards for placing hard-to-serve participants.

Conditions Placed on Incentive Funds

Beginning in PY 88, Kentucky implemented a statewide exemption of incentive funds from the federal performance standards. The state has no special requirements for SDA expenditure of these funds.

F. COLORADO: ENCOURAGING PERFORMANCE WITHIN A REALISTIC RANGE

Policy Objectives

Colorado's performance standards and incentive policies encourage quality placements, discourage SDA competition, and reward performance through a continuous award process that limits incentives for over-performance. Additionally, the Job Training Coordinating Council decided that technical assistance funds should be distributed as needed in accordance with approved plans to improve performance. Key provisions of Colorado's strategy include the following:

- Gradual implementation of all postprogram measures and the youth employability enhancement rate, coupled with zero weighting of the cost standards in the incentive award allocation formula, thereby encouraging quality placements.
- Creating distinct target pools for each SDA while requiring a threshold number of standards to be met for SDAs to be eligible for incentive awards.
- Establishing a continuous incentive award policy with a cap to encourage improved performance without rewarding overperformance.
- Allocating technical assistance funds based on how well the SDA's proposal addresses deficiencies in performance.

Specific policies implemented by Colorado are outlined below.

Emphasis on Different Outcomes

Colorado set different performance standards for PY 88 and PY 89 to allow a gradual transition to postprogram measures. For PY 88, Colorado dropped the youth entered-employment rate measure and instituted the adult follow-up employment rate and weeks worked measures. In PY 89, the adult wage at placement and welfare entered-employment rate standards were dropped to allow full implementation of postprogram measures. Additionally, the youth employability enhancement rate was set as a state standard for PY 89. This standard is used only to determine SDA incentive awards, not for sanctions.

During both program years, Colorado zero weighted the cost standards in the incentive award allocation formula. Colorado established separate pools of incentive funds for each standard. In PY 89, the youth positive-termination rate standard was given the highest weight (25% of available incentives) and the adult entered-employment rate the lowest (3%). All other measures were weighted between 13% and 15%. This distribution was designed to deemphasize cost as a rewardable goal and emphasize postprogram employment as the primary SDA goal.

Qualifying for Incentive Awards

Colorado has defined a "range of rewardable performance" for each standard. The lower bound of this range is set at the lower bound of the tolerance range and is capped 10% above the standard. Exceeding a standard is defined as performance above the lower bound. To be eligible for incentive awards, SDAs must exceed five of the eight federal standards.

Calculation of Incentive Awards

The state established a continuous, noncompetitive incentive award policy with a cap for PY 88/89. Based on an SDA's relative share of the state's economically disadvantaged population, a target award pool for each SDA is established for each standard. The amount of the incentive award received by the SDA is determined by the actual performance within the rewardable range.

The incentive awards are calculated using a continuous approach. The amount of incentives is determined by the proportion of the rewardable range achieved. For example, if an SDA's follow-up weeks worked standard is 8 weeks, the range of rewardable performance extends from 8 to 8.8 weeks. If the SDA's actual performance is 8 weeks, the SDA does not receive any funds from this target pool. If the SDA's performance is 8.4 weeks, the SDA is eligible for half of the available target award funds. Performance at or above 8.8 weeks results in a full award. By placing a cap on rewardable performance, the state discourages overperformance.

Conditions Placed on Incentive Funds

Colorado neither excludes incentive funds from performance standards nor requires incentive awards to be used for specified groups.

Annually, the Job Training Coordinating Council sets aside a portion of 6% funds to be used for technical assistance. Subsequent to the announcement of incentive awards for the prior program year, SDAs may submit a proposal for these funds. The proposal should include the following elements:

- Identification of the performance standards the SDA wishes to improve on--this may include both failed standards and standards for which the SDA did not receive the maximum award.
- An analysis of why the deficiencies occurred.
- A description of how the SDA intends to improve performance
- A detailed statement outlining the funds required to support improved performance.

This policy distributes technical assistance funds through a process that rewards SDAs that identify specific action plans to address deficiencies in performance.

APPENDIX A

WEIGHTING PROCEDURE TO TREAT STANDARDS EQUALLY IN A COMPOSITE MEASURE OF PERFORMANCE

As discussed in Chapter II, states that use a composite measure of performance that sums the percentage by which each standard is exceeded have inadvertently given greater weight to standards that are easier to exceed by a wide margin. One way to correct this problem is to give standards unequal weights in the composite index to undo the inadvertent weighting.

Standards can be treated equally by using the following weights in a composite formula based on percentage above standard:

	Weight
Adult follow-up employment rate	26%
Adult follow-up weekly earnings	24
Welfare follow-up employment rate	15
Welfare follow-up weekly earnings	19
Youth employability enhancement rate	6
Youth entered-employment rate	10
Total	100

An SDA performing at the 75th percentile on every standard would receive approximately the same credit for each standard when these values are used to weight the percentage above standard in a composite formula.

States can adjust these weights to reflect state policy by increasing the weights of standards that they want to emphasize and reducing the weights for standards that they want to deemphasize.

NATIONAL COMMISSION FOR EMPLOYMENT POLICY
1522 K Street, NW, Suite 300
Washington, D.C. 20005

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, $300

THIRD CLASS MAIL
U.S. Postage Paid
Permit No. G-59

National Commission for Employment Policy

1522 K Street, N.W., Suite 300, Washington, D.C. 20005
(202) 724-1545