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COST ANALYSIS
OF THE
STEP FORWARD
PROGRAM

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The Subsidized and Transitional Employment Demonstration: Cost Analysis of the STEP Forward Program

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Overview

Introduction

STEP Forward was a voluntary program in San Francisco that aimed to connect low-income job seekers to the labor market by using public funds to temporarily subsidize individuals' wages, known as subsidized employment, with the goal of ultimately increasing permanent unsubsidized employment among this population. The program was operated by the Human Services Agency of San Francisco (HSA) under the umbrella of JOBSNOW!, HSA's broader subsidized employment initiative. STEP Forward offered job seekers opportunities to interview for jobs with private sector employers at weekly job fairs and offered employers temporary wage subsidies if they hired disadvantaged job seekers whom they might not otherwise hire. A diverse group of low-income job seekers enrolled in the program, the vast majority of whom were either CalWORKs (California's Temporary Assistance for Needy Families program) clients, individuals who had exhausted their unemployment insurance benefits, or CalFresh (California's Supplemental Nutrition Assistance Program) recipients.

To test the effectiveness of this strategy and to learn about its costs, the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services funded a random assignment evaluation of STEP Forward, in which individuals were randomly assigned to a program group that had access to STEP Forward services or to a control group that did not have access to STEP Forward services but could receive other services in the community. A total of 837 adults were enrolled into the STEP Forward study between November 2012 and March 2015. In the first year after random assignment when program group members who were placed in subsidized employment were still receiving subsidized wages, program group members were more likely than control group members to have been employed and had higher average earnings. Impacts on earnings continued into the fourth year, well after the subsidies had ended.

This paper presents the one-year costs of STEP Forward, including program services such as job-readiness services and the subsidized portion of wages provided to program group members. It also presents the costs of non-STEP Forward services available to both program group and control group members, which included education, training, and job skills services. This evaluation is part of a larger demonstration called the Subsidized and Transitional Employment Demonstration (STED). In addition to STEP Forward, STED includes random assignment evaluations of six other subsidized employment strategies around the country. MDRC, a nonprofit, nonpartisan research organization, is leading the project under a contract with ACF along with its partner, MEF Associates. Longer-term findings from all STED random assignment evaluations are included in a separate synthesis report, while earlier findings discussing the implementation of STEP Forward and early impacts are in a separate interim report.

Purpose

The purpose of the cost study is to determine what it cost to provide STEP Forward services to a single program group member once STEP Forward had reached a steady state of operation. The analysis estimates the costs per sample member in two categories: STEP Forward program costs and non-STEP Forward costs, which include remedial education, post-secondary education, vocational training, and job skills services.

Key Findings and Highlights

- The cost of STEP Forward program services averaged \$2,646 per program group member. Program group members received an average of \$1,038 in subsidized wages.
- The cost of non-STEP Forward services, which both groups received, averaged \$1,751 per program group member and \$2,355 per control group member.
- The net cost, the difference between the total program group costs and the total control group costs, averaged \$3,080 per program group member.

Methods

The cost of STEP Forward was assessed using program expenditure reports, program survey data, and public data sources. The cost of STEP Forward program services were estimated by summing direct program expenditures from July 2013 through June 2014 and dividing by the number of program group members enrolled during that period. To estimate the cost of non-STEP Forward program services, the research team first determined the unit cost, or the cost of serving one person for a specific unit of time (for example, one month). Multiplying the unit cost by the average length of time sample members received each service gives the average cost incurred per sample member.

Acknowledgments

This working paper would not have been possible without the support of many individuals and organizations. The Subsidized and Transitional Employment Demonstration (STED) is conceived and sponsored by the Administration for Children and Families in the U.S. Department of Health and Human Services. Dedicated staff members in that agency have been instrumental to the success of the project, in particular Girley Wright and Erica Zielewski. Mark Fucello and Peter Germanis also provided insightful recommendations on drafts of this working paper.

At the Human Services Agency of San Francisco (HSA), we would like to thank Steve Arcelona, Tony Lugo, James Whelley, Roxana Morales, and Heather Davis. They have been invaluable partners in the development of STEP Forward and the research design of its evaluation and supplied the research team with critical program participation and cost data. We would also like to acknowledge and thank the many HSA staff members who operated the STEP Forward program.

At MEF Associates, Mary Farrell made valuable contributions to this working paper. At MDRC, Johanna Walter and Ali Tufel provided thoughtful comments on several drafts of this working paper, and Jillian Verillo capably managed the paper's production; Christopher Boland edited the paper and Carolyn Thomas prepared it for publication.

Finally, we extend our deep appreciation to the women and men who participated in the study and gave generously of their time to respond to surveys and participate in interviews and focus groups.

The Author

Introduction

Securing unsubsidized employment can be difficult for low-income job seekers in a competitive labor market that is increasingly dominated by highly skilled technical and professional employment. This is especially true in San Francisco, whose tech boom has not benefited workers who are less educated or who lack the higher skills required by the jobs that have driven the economy's recent growth. Securing stable employment is a must for lower-income workers in both San Francisco and the United States at large.

STEP Forward was a voluntary program in San Francisco that aimed to connect low-income job seekers to the labor market by using public funds to temporarily subsidize individuals' wages, known as subsidized employment, with the goal of ultimately increasing permanent unsubsidized employment among this population. The program was operated by the Human Services Agency of San Francisco (HSA) under the umbrella of JOBSNOW!, HSA's broader subsidized employment initiative. STEP Forward offered job seekers opportunities to interview for jobs with private sector employers at weekly job fairs and offered employers temporary wage subsidies if they hired disadvantaged job seekers whom they might not otherwise hire. A diverse group of low-income job seekers enrolled in the program, the vast majority of whom were either CalWORKs (California's Temporary Assistance for Needy Families program) clients, individuals who had exhausted their unemployment insurance benefits, or CalFresh (California's Supplemental Nutrition Assistance Program) recipients.

To test the effectiveness of this strategy, the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services funded a random assignment evaluation of STEP Forward, in which individuals were randomly assigned to a program group that had access to STEP Forward services or to a control group that did not have access to STEP Forward services but could receive other services in the community.¹ A total of 837 adults were enrolled into the STEP Forward study between November 2012 and March 2015.

This evaluation is part of a larger demonstration called the Subsidized and Transitional Employment Demonstration (STED). In addition to STEP Forward, STED includes random assignment evaluations of six other subsidized employment strategies around the country. MDRC, a nonprofit, nonpartisan research organization, is leading the project under a contract with ACF along with its partner, MEF Associates. Longer-term findings from all STED random assignment evaluations are included in a separate synthesis report,² while earlier findings discussing the implementation of STEP Forward and early impacts are in a separate interim report.³

¹Individuals who were randomly assigned to the control group received a list of other services, such as assistance with housing, transportation, and job search, which they could access on their own.

²Cummings (forthcoming).

³Walter, Navarro, Anderson, and Tso (2017).

This paper presents the one-year costs of STEP Forward, including the subsidized portion of wages provided to program group members, and the cost of providing education, training, and job skills services. It begins with a description of the services offered through the program and a discussion of the program's impacts, followed by a review of the data sources and a description of the methodology used to estimate the costs. It then presents an estimate of the cost of services for the program group and the difference in the cost of services provided to program group members relative to the control group.

STEP Forward Program Services

The STEP Forward program was designed to operate similarly to a staffing agency, offering job seekers opportunities to interview for jobs with private sector employers at weekly job fairs. The program offered employers temporary wage subsidies to encourage them to try out job seekers whom they might not otherwise hire, with the goal that they might ultimately hire these workers into permanent unsubsidized employment.

Once enrolled in the voluntary program, participants met with a case manager who assessed if they were ready to interview for jobs based on whether they had an updated résumé, appropriate interview attire, and access to the necessary child care and transportation. If the participant met these requirements, the case manager reviewed the available job openings that employers had listed with the program and completed a worksheet that ranked how well the participant fit a particular job, selecting the highest ranked participants to interview with that position's employer (as long as those participants expressed interest in the position).

In order for employers to qualify for subsidies, the jobs they offered had to be at least 25 hours per week and pay the prevailing wage for the position. HSA provided the subsidy reimbursement, which varied based on the position's hourly wage but had a maximum of \$1,000 per month for up to five months.

For those participants who did not meet the requirements, the case manager worked with them to help prepare them for the job market by reviewing their résumés, conducting practice interviews, or referring them to outside providers for services and resources HSA did not offer. Once participants successfully obtained a subsidized job, HSA considered them to have completed the program and HSA staff did not initiate post-placement contact.

STEP Forward's Impacts

To assess to what degree STEP Forward affected the kinds of services the program group received and to what extent these services improved their employment outcomes, the research team looked at employment and earnings data from the National Directory of New Hires one, two, three, and four years after random assignment and survey data

from one year after random assignment for both the program group and the control group.⁴ Some of STEP Forward's impacts on service receipt and employment outcomes, shown in Table 1, are discussed below, but a more complete discussion can be found in the interim and final synthesis reports.

- **The program greatly increased receipt of employment services, which was unsurprising given that most of the program group received job-readiness services through STEP Forward, while control group members could receive such services only through other programs and services they found in the community.**

While over half of the control group reported receiving help with finding or keeping a job, likely through other programs and services they found in the community, nearly 94 percent of the program group received these services. These services included help with job searches, job referrals, developing a résumé, filling out job applications, and preparing for job interviews, among other activities. STEP Forward offered many of these services to program group members in the form of job-readiness activities. Only a quarter of program group members were interviewed and hired through the program.

- **In the first year after random assignment, program group members were more likely than control group members to have been employed and had higher average earnings. Impacts on earnings continued into the fourth year.**

Nearly 70 percent of the control group worked in the year following random assignment, according to administrative records. However, three-fourths of program group members were employed in the year following random assignment, resulting in an impact on employment of 6 percentage points. Program group members also earned approximately \$1,600 more (including the subsidy amount) than control group members, on average, in the year following random assignment. Program group members continued to earn more even after the subsidies ended in the second, third, and fourth years following random assignment, earning \$2,142, \$2,181, and \$2,941 more than control group members, respectively.

Methodology and Data Sources

This analysis estimates the cost of providing STEP Forward services to a single program group member once STEP Forward had reached a steady state of operation. As such, the analysis uses HSA expenditure data from July 2013 to June 2014. By July 2013, the

⁴Unless otherwise indicated, all impacts discussed in this report are statistically significant, with p-values less than 0.10 — meaning that there is less than a 10 percent chance that the observed impacts were not a result of the program.

Table 1
STEP Forward Impacts on Service Receipt and Employment Outcomes

Outcome	Program Group	Control Group	Difference (Impact)	90 Percent Confidence Interval
Year 1 (self-reported outcomes) (%)				
Received help related to finding or keeping a job	93.8	57.7	36.1 ***	[30.6, 41.5]
Participated in education and training	32.1	31.5	0.6	[-6.0, 7.2]
ESL, ABE, or high school diploma or equivalency classes	6.2	6.4	-0.1	[-3.3, 3.1]
Postsecondary education leading to a degree	9.2	13.4	-4.2	[-8.8, 0.3]
Vocational training	22.1	16.2	5.9 *	[0.3, 11.5]
Sample size (total = 556)	286	270		
Year 1 (administrative outcomes)				
Employment (%)	75.7	69.7	6.0 **	[1.3, 10.7]
Participated in STED subsidized employment	24.1	N/A		
Total earnings (\$)	8,521	6,912	1,610 ***	[591, 2,628]
Subsidized earnings	1,016	N/A		
Year 2 (administrative outcomes)				
Employment (%)	76.7	73.5	3.2	[-1.5, 7.9]
Total earnings (\$)	14,413	12,271	2,142 **	[473, 3,811]
Year 3 (administrative outcomes)				
Employment (%)	76.4	74.5	2.0	[-2.8, 6.7]
Total earnings (\$)	17,433	15,252	2,181 *	[174, 4,189]
Year 4 (administrative outcomes)				
Employment (%)	75.2	71.9	3.3	[-1.6, 8.2]
Total earnings (\$)	19,521	16,580	2,941 **	[745, 5,137]
Sample size (total = 811)	414	397		

SOURCES: MDRC calculations based on quarterly wage data from the National Directory of New Hires, STEP Forward subsidy payment records, and responses to the 12-month survey.

NOTES: ESL = English as a Second Language; ABE = Adult Basic Education.

Results in this table are regression-adjusted, controlling for pre-random assignment characteristics.

Statistical significance levels are indicated as follows: *** = 1 percent; ** = 5 percent; * = 10 percent.

program was operating at full capacity, so this time period was chosen to avoid including costs associated with start-up activities. The analysis also estimates the costs of non-STEP Forward services available in the community for both program and control group members.

This analysis estimates the costs per sample member in two categories (shown in Figure 1): STEP Forward costs and non-STEP Forward costs. To determine the cost per sample member for each service within the latter category, the research team first determined the unit cost, or the cost of serving one person for a specific unit of time (for example, one month). Multiplying the unit cost by the average length of time sample members received each service gives the average cost incurred per sample member. All costs have been adjusted to 2016 dollars for this analysis.

STEP Forward Costs

HSA requires staff to itemize hours worked by program, including STEP Forward, every quarter. The cost of the STEP Forward program was calculated by allocating a portion of staff salaries and administrative costs based on the number of hours staff recorded spending on STEP Forward activities. The allocated expenditures were divided by the number of program group members randomly assigned to the program between July 2013 and June 2014 to calculate a cost per program group member. Subsidized wages for the program group members came from payroll records.

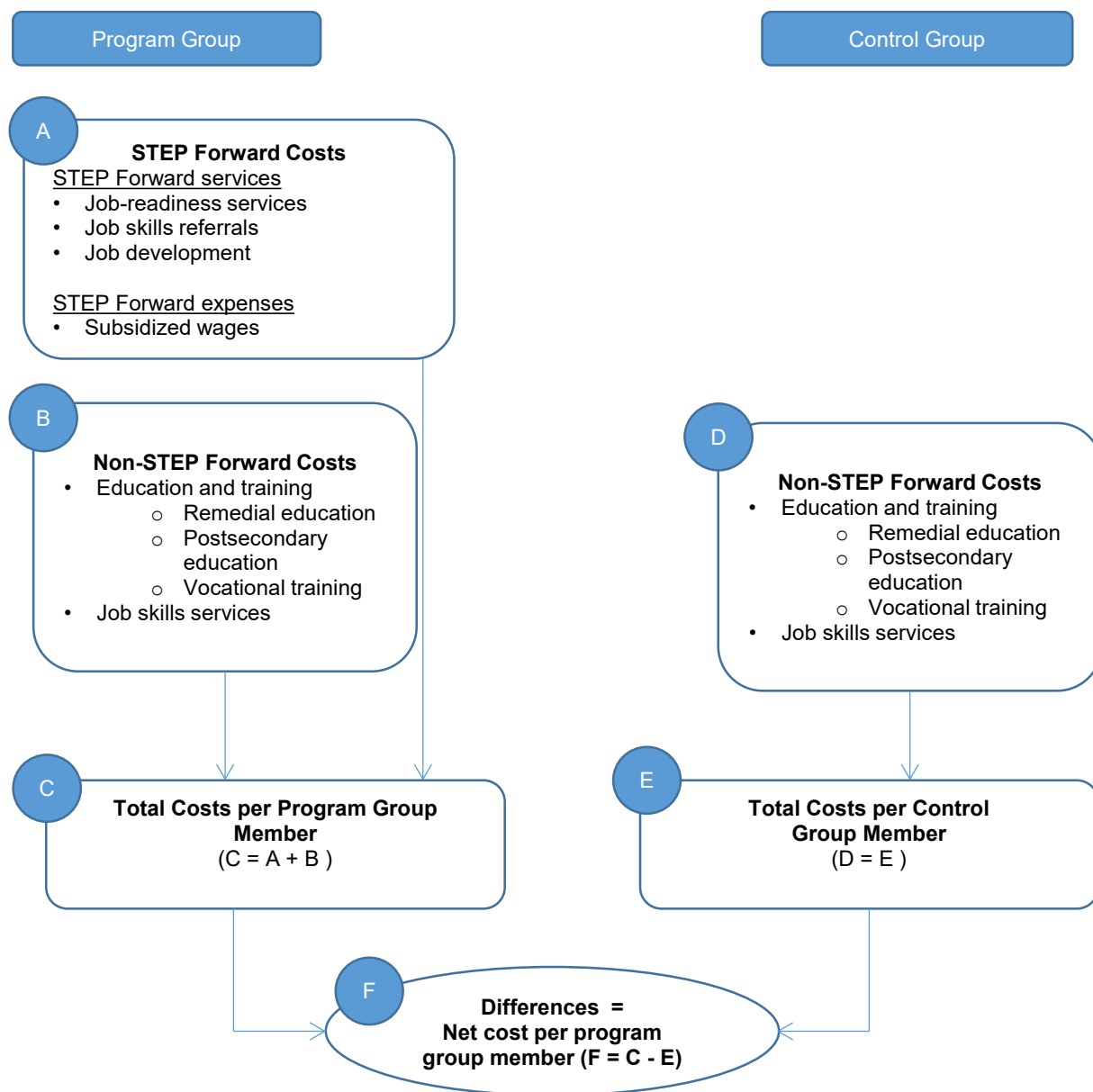
Non-STEP Forward Costs

Sample members could access a variety of services from outside providers including remedial education training, postsecondary education and vocational training, and job skills training. Data on sample member's participation in non-STEP Forward services came from a participant survey administered 12 months after random assignment. The survey asked respondents to estimate the number of weeks they spent in various activities, shown in Table 2. Weekly unit costs (the estimated costs of serving one person for one week) were constructed for each of these activities based on information from published sources, also shown in Table 2.

The costs of remedial education were calculated for California from the U.S. Department of Education's Office of Career, Technical, and Adult Education's National Reporting System and included participation in English as a Second Language, adult basic education classes, classes to prepare for a high school diploma, and high school equivalency classes, including those leading to a General Educational Development certificate.

The research team assumed sample members received postsecondary and vocational training services from the public community college system in San Francisco and estimated the costs of these services from the U.S. Department of Education's National Center for Education Statistics' Integrated Postsecondary Education Data System.

Figure 1
STEP Forward Cost Components



Job skills services included receiving help with job searching, job referrals, developing a résumé, filling out job applications, preparing for job interviews, job-readiness training, and planning for future career or educational goals. The research team did not know where sample group members received these services, so this analysis uses the cost of a class or workshop from the Workforce Investment Act Adult and Dislocated Worker Programs Gold Standard Evaluation.

Table 2
Unit Costs and Participation Information

Component	Weekly Cost (\$)	Length of Participation (in Weeks)	
		Program Group	Control Group
Remedial education	113	1.2	0.9
Postsecondary education	245	3.9	5.4
Vocational training	228	2.2	2.2
Job skills	58	2.4	7.9

SOURCES: Calculations are based on data from U.S. Department of Education's National Center for Education Statistics' Integrated Postsecondary Education Data System; U.S. Department of Education's Office of Career, Technical, and Adult Education National Reporting System; Mastri and McCutcheon (2015); and responses to the 12-month survey.

Costs

Average costs are divided into two categories — STEP Forward services and non-STEP Forward services — for the program and control groups. (See Table 3.)

STEP Forward Costs

The monthly cost of STEP Forward program services was \$2,646 per program group member. Program group members received \$1,038 in subsidized wages on average, for a total cost of \$3,684 per program group member.

Non-STEP Forward Costs

Although program and control group members were equally likely to participate in remedial education, among those who participated, program group members spent more weeks in remedial education than did control group members. The per-person costs of these services averaged \$102 for the control group, compared with \$139 for the program group. Program group members were less likely to participate in postsecondary education, and the per-person costs of these services averaged \$1,290 for the control group and \$963 for the program group. Control group members and program group members spent a similar number of weeks on average in vocational training, with these costs averaging \$506 for the control group and \$510 for the program group. Program group members were more likely to receive help related to finding or keeping a job. The majority of program group members received this help as part of STEP Forward, and the cost is already captured as part of the STEP Forward cost. Control group members

Table 3
Estimated Net One-Year Cost per Program Group Member
(in 2016 Dollars)

Component (\$)	Gross Costs		Net Costs per Program Group Member
	Program Group	Control Group	
STEP Forward costs			
Staff services	2,646	0	2,646
Subsidized wages	1,038	0	1,038
Total STEP Forward costs	3,684	0	3,684
Non-Step Forward costs			
Remedial education	139	102	37
Postsecondary education	963	1,290	-327
Vocational training	510	506	4
Job skills training	139	457	-318
Total non-STEP Forward costs	1,751	2,355	-604
Total Costs	5,435	2,355	3,080

SOURCES: Calculations for STEP Forward costs based on fiscal data from the Human Services Agency of San Francisco, participation data and wages from the JOBSNOW! management information system data, and subsidy payment records. Calculations for non-STEP Forward costs based on data from U.S. Department of Education's National Center for Education Statistics' Integrated Postsecondary Education Data System; U.S. Department of Education's Office of Career, Technical, and Adult Education National Reporting System; Mastro and McCutcheon (2015); and responses to the 12-month survey.

would have received this help from other community providers. The per-person costs of these services averaged \$457 for the control group and \$139 for the program group.⁵

Net Costs

The net cost is the difference between all program group costs and all control group costs and reflects what was spent on program group members over and above what was spent on control group members. The per-person net cost averaged \$3,080, which is the lowest per-person net cost of any STED program. This low cost combined with the large impacts on earnings through three years after random assignment means STEP Forward was likely cost-beneficial from society's perspective. For a full discussion of costs across different subsidized employment program types, see the final synthesis report.

⁵The cost of these services for program group members does not include the costs of job skill services provided through STEP Forward.

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