



WORKFORCE *REALIGNED*

How New Partnerships Are
Advancing Economic Mobility

WORKFORCE REALIGNED

HOW NEW PARTNERSHIPS ARE
ADVANCING ECONOMIC MOBILITY



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We started this book with a common commitment to economic mobility and a sense that what we were seeing—innovative financing models built around measured results—was intimately linked to a more equitable future. Since then, the pandemic has upended our world and our economy. The devastation of this crisis has hardened our belief in the potential to reimagine the workforce with workers, skills, and mobility at the center.

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We hope and expect that an ever-expanding group of people will use the ideas in this book to create a workforce and an economy that are more nimble, equitable, and resilient. We thank you in advance for all that you do and for your creativity and dedication. In the next book, we look forward to profiling your work.

Jake Segal, Meredith Segal, Stuart Andreason, Sarah Miller, and Ashley Putnam



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FOREWORD

Dr. Raphael Bostic (president and CEO, Federal Reserve Bank of Atlanta), Dr. Patrick Harker (president and CEO, Federal Reserve Bank of Philadelphia), and Tracy Palandjian (CEO and co-founder of Social Finance)



As we begin to recover from one of our nation's greatest crises, it's time to rethink the way we finance worker upskilling to meet the future of work. Achieving the twin objectives of advancing economic opportunities for workers and meeting the talent needs of the economy requires us to rewire the workforce system—rebalancing risk and realigning financial incentives.

That's what this book is about. It highlights a new breed of partnerships emerging among government officials, education and training providers, corporate leaders, and investors—partnerships that are built to achieve outcomes. These models link funding to results, helping actors to think and invest longer term, apportion risks and align incentives more thoughtfully, and unleash the power of adaptation and entrepreneurship to build a more inclusive, more equitable, and stronger workforce system.

This work is urgent. Despite increasing rates of higher education following the Great Recession, mobility has



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stalled.¹ Income gains since 1970 have become skewed toward the top—doubling, in real terms—while the middle class has stagnated.² A handful of the richest Americans own more wealth than 160 million others.³ And in the wake of the Great Recession, student debt tripled to \$1.6 trillion in a decade,⁴ even though a college degree is no longer a clear pathway to the middle class, especially for those in poverty.⁵

While increasing access to economic mobility unlocks greater equity, it is also a catalyst for economic recovery.

¹ U.S. Census Bureau, "Postsecondary Enrollment Before, During and After the Great Recession," news release no. CB18-TPS.30, June 12, 2018, www.census.gov/newsroom/press-releases/2018/postsecondary.html; and Lawrence F. Katz et al., "Documenting Decline in U.S. Economic Mobility," *Science*, April 28, 2017.

² Moritz Kuhn, et al., "Research: How the Financial Crisis Drastically Increased Wealth Inequality in the U.S.," *Harvard Business Review*, September 13, 2018, <https://hbr.org/2018/09/research-how-the-financial-crisis-drastically-increased-wealth-inequality-in-the-u-s>.

³ Noah Kirsch, "The 3 Richest Americans Hold More Wealth Than Bottom 50% of the Country, Study Finds," *Forbes*, November 9, 2017, www.forbes.com/sites/noahkirsch/2017/11/09/the-3-richest-americans-hold-more-wealth-than-bottom-50-of-country-study-finds.

⁴ Zack Friedman, "Student Loan Debt Statistics in 2020: A Record \$1.6 Trillion," *Forbes*, February 3, 2020, www.forbes.com/sites/zackfriedman/2020/02/03/student-loan-debt-statistics; and Jillian Berman, "How Wiping Out \$1.5 Trillion in Student Debt Would Boost the Economy," *MarketWatch*, October 24, 2019, www.marketwatch.com/story/how-wiping-out-15-trillion-in-student-debt-would-boost-the-economy-2019-09-09.

⁵ Ellen Ruppel Shell, "College May Not Be Worth It Anymore," *The New York Times*, May 16, 2018, www.nytimes.com/2018/05/16/opinion/college-useful-cost-jobs.html.



This book illustrates a range of tools to rethink how we fund and finance the future of work.

We must create more aligned incentives for programs to ensure that those who are powering our economy are able to share in its growth.

New pathways to prepare Americans for in-demand jobs will spur economic growth and enable employers to fill positions currently open due to the ongoing skills gap.⁶

As we write this foreword, the nation is in the midst of a disastrous and deadly pandemic. Hardships will fall, as they often do, disproportionately on those with fewer skills and lower education levels, the undocumented, people of color, young adults, and young families.

It's essential to start planning a recovery that's more efficient, more equitable, and more focused on achieving positive outcomes. For all the transformations in today's economy, we know that training and education can promote economic progress. But today, the wiring is all wrong. Students choose education and training programs without any assurance of better jobs down the line; governments spend money on services without any guarantee of their impact; employers hesitate to fund employee supports or upskilling for fear their investments won't pay off. Each actor in our fragmented workforce system acts independently in the face of daunting risks and uncertain rewards.

The examples featured in this book reconceptualize the talent development engine that keeps our economy running. They demonstrate better ways to share accountability and risk across sectors—driven by outcomes-based partnerships among policymakers, education and training providers, employers, nonprofits, philanthropists, and impact investors. At the core of each case are results: measuring progress, optimizing delivery, and paying for outcomes.

This book illustrates a range of tools to rethink how we fund and finance the future of work. We must create more aligned incentives for programs to ensure that those who are powering our economy are able to share in its growth. In doing so, we can lay the foundation for a more adaptive system ready to meet the continually changing future of work.



⁶ Elizabeth Mann Levesque, *Understanding the Skills Gap—And What Employers Can Do About It* (Brookings Institution, December 2019), www.brookings.edu/research/understanding-the-skills-gap-and-what-employers-can-do-about-it.

INTRODUCTION

Dr. Stuart Andreason (assistant vice president and director, Center for Workforce and Economic Opportunity, Federal Reserve Bank of Atlanta), Sarah Miller (senior adviser, Center for Workforce and Economic Opportunity, Federal Reserve Bank of Atlanta), Ashley Putnam (director, Economic Growth and Mobility Project, Federal Reserve Bank of Philadelphia), Jake Segal (vice president, Social Finance), and Meredith Segal (associate director, Social Finance)



Finding a place in the middle class is harder than ever. Talent—including among youth, people of color, immigrants and refugees, and the currently and formerly incarcerated—remains sidelined.¹ Employment for those with lower levels of education consistently proves more reactive to economic conditions and more fragile in times of downturn.²

Economic mobility continues its dramatic, decades-long decline.³ Ninety million working-age American adults have

¹ U.S. Bureau of Labor Statistics, “Labor Force Statistics from the Current Population Survey,” October 1, 2018.

² U.S. Bureau of Labor Statistics, “Unemployment Rates for Persons 25 Years and Older by Educational Attainment,” accessed March 19, 2021, www.bls.gov/charts/employment-situation/unemployment-rates-for-persons-25-years-and-older-by-educational-attainment.htm.

³ Raj Chetty, et al., “The Fading American Dream: Trends in Absolute Income Mobility Since 1940,” *Science*, April 28, 2017, 398–406.

no credential beyond a high school diploma.⁴ There are middle-skill jobs waiting for them: 52% of all jobs require training beyond high school but not a four-year degree, whereas only 43% of workers fall into this category.⁵ A generation lost to the Great Recession is stuck in low-paying, entry-level roles with no clear path to career progression because they can’t afford the training needed for a better life—and because the resources to help them access such pathways have become scarcer.

Something is amiss in the architecture of workforce funding. For all of the confident predictions we see about the future of work, the humbling reality is that there’s real uncertainty in workforce preparation.⁶ America faced declining economic mobility and a growing skills mismatch before the pandemic; as the economy transforms, that uncertainty grows. With it comes financial risk: We—students, employers, public workforce developers, our collective society—don’t always know which investments will pay off.

Often, those risks—instead of being shared—are shouldered disproportionately. Within our current system, individual actors—often those with the least access to information and the least financial resilience—are asked to take on all of the system’s risks.

Students bear nearly all the risk that comes with pursuing postsecondary education and career training. They take out

⁴ Lumina Foundation, *Strategic Plan*, September 2020, www.luminafoundation.org/wp-content/uploads/2020/09/lumina-foundation-strategic-plan-2020.pdf.

⁵ National Skills Coalition, “Skills Mismatch: Lack of Access to Skills Training Hurts Workers and Businesses,” accessed March 19, 2021, www.nationalskillscoalition.org/wp-content/uploads/2020/12/US-Skills-Mismatch-Fact-Sheet-2020.pdf.

⁶ Ron Haskins and Jon Baron, *The Obama Administration’s Evidence-Based Social Policy Initiatives: An Overview* (Brookings Institution, June 2016), www.brookings.edu/wp-content/uploads/2016/06/04_obama_social_policy_haskins.pdf. The authors noted, “When evaluated in scientifically rigorous studies, government-funded social interventions in areas such as K-12 education, job training, crime prevention, and poverty reduction are frequently found to be ineffective or marginally effective. Interventions found to produce sizeable, sustained effects on important life outcomes do exist, but tend to be the exception.”



A new breed of cross-sectoral partnerships is emerging. These partnerships are characterized by shared and carefully apportioned financial risks and incentives; by carefully defined accountability; and by empowered, interconnected governance.

loans, often leave their jobs or reduce their hours, and bet it all on earning higher wages in the future. Even if a good job doesn't come through, student debt remains. Despite standard 10-year federal repayment plans, a One Wisconsin Institute study found that, on average, it took twice that to pay off a bachelor's degree.⁷ Americans over the age of 60 owe \$86 billion in student loan debt.⁸

Governments, similarly, take on nearly all of the risk of their workforce programs. They draw public funds, pick local programs that they hope will be effective, and bet that those programs will lead to better wages for participants, a stronger local economy, and more equitable wealth distribution. Programs are rarely evaluated carefully, so when they succeed, we often don't know.⁹ When they fail, we pay for them anyway.

⁷ One Wisconsin Institute, *Survey Results: Impact of Student Loan Debt on Homeownership Trends and Vehicle Purchasing*, June 13, 2013, <https://onewisconsinnow.org/institute/research/impact-of-student-loan-debt-on-national-economy>.

⁸ AnnaMaria Andriotis, "Over 60, and Crushed by Student Loan Debt," *The Wall Street Journal*, February 2, 2019, www.wsj.com/articles/over-60-and-crushed-by-student-loan-debt-11549083631.

⁹ The White House Council of Economic Advisers, *Government Employment and Training Programs: Assessing the Evidence on Their Performance*, June 2019, <https://trumpwhitehouse.archives.gov/wp-content/uploads/2019/06/Government-Employment-and-Training-Programs.pdf>. The report found, "Among the training programs with available data and rigorous impact studies, the evidence shows that most government training programs are not effective at securing higher paying jobs for participants."

Designing a new system from scratch would naturally involve realigning incentives: making sure that training institutions and student debt providers have a stake in student outcomes, that government workforce programs grow or shrink on the basis of their performance, that employers pay their fair share for skilled workers but only pay when it actually meets their needs.

PAYING FOR RESULTS

That kind of redesign is in progress. A new breed of cross-sectoral partnerships is emerging. These partnerships are characterized by shared and carefully apportioned financial risks and incentives; by carefully defined accountability; and by empowered, interconnected governance.

For several decades, policymakers and scholars have been intrigued by the idea of paying for outcomes achieved rather than paying for services delivered. Their experiments suggest both promise and caution. In "Buying Outcomes: Lessons from the Past," former Speaker of the House Paul Ryan highlights three troubled federal forays into performance-based contracting: the Job Training Partnership Act (1982), the Ticket to Work and Work Incentives Improvement Act (1999), and Physician Pay-for-Performance (2005). These programs teach us about traps to avoid: how to ensure programs don't drift away from serving vulnerable individuals, stay squarely focused on long-term successes, and build evaluation designs that avoid creating perverse incentives. Lessons from these programs have informed a new wave of federal outcomes-based contracts, culminating in the Social Impact Partnerships to Pay for Results Act (2018). They have also informed thoughtful state- and local-level innovations, such as the outcomes rate card that former Connecticut Office of Early Childhood Commissioner David Wilkinson discusses in "A Whole New Menu: Outcomes Rate Cards in Practice" and a results-based financing agreement

between San Bernardino County and First Step Staffing profiled in “Money-Back Guarantee: A Staffing Agency for the Social Sector” by First Step CEO Amelia Nickerson and San Bernardino Human Services Assistant Executive Officer CaSonya Thomas.

When it comes to designing the future of innovative finance, it’s important to start from the past. In “The Emergence of Income Share Agreements,” Dubravka Ritter and Dr. Douglas Webber address the pitfalls encountered by the first income share agreements (ISAs). In the 1960s and 1970s, universities including Duke, Harvard, and Yale attempted to structure income-contingent tuition repayment arrangements, but each ran into trouble. As the government’s student loan portfolio ballooned, economic uncertainty has made students more reluctant to take on debt and stakeholders have sought to tie education and training more closely to workforce outcomes, leading to the emergence of a new set of ISAs. This book highlights ISAs that have emerged over the past decade and incorporate the lessons of the past, including those led by Purdue University, General Assembly, and San Diego Workforce Partnership, and emerging concepts from the state of New Jersey and elsewhere. Former U.S. Federal Deposit Insurance Corp. (FDIC) Chair Sheila Bair and Preston Cooper reflect in “Consumer Protections for Income Share



The new training economy will offer a wider array of industry-recognized credentials and fast, low-cost pathways to good jobs—and they will ask every stakeholder to contribute.

Agreements” that the rapidly expanding market of ISAs has generated the need for robust consumer education, downside protections for students, and potentially federal legislation to guide market development.

SHARING RISK AND IMPROVING ACCESS

For generations, a degree from an accredited higher education institution represented a ticket to a good job and the middle class. More than a third of students who enroll in four-year programs do not earn their degree within six years, and two-thirds of students who enroll in two-year programs do not earn their degree within three years.¹⁰ Even for those who do complete successfully, the degree is no longer a guarantee. Some degrees don’t pay—and some students graduate into a recession and cannot find a good job. At the same time, there have emerged an ever-growing number of innovative pathways to good jobs. The challenge remains that many of these alternative pathways lack sustainable financing mechanisms to enable students to participate without risking hefty debts and, potentially, no job.

The new training economy will offer a wider array of industry-recognized credentials and fast, low-cost pathways to good jobs—and they will ask every stakeholder to contribute. General Assembly CEO Lisa Lewin and Vice President of Social Impact and External Affairs Tom Ogletree discuss new ways to radically improve accessibility of programs to students without capital or credit. Chancellors Michael Reeser of Texas State Technical College (TSTC) and Glenn DuBois of Virginia Community College System (VCCS) address mechanisms of realigning incentives. In “Going All In: Linking Funding to Outcomes at Texas State Technical College,” Chancellor Reeser describes TSTC’s transition to a funding formula

¹⁰ National Center for Education Statistics, *The Condition of Education: Undergraduate Retention and Graduation Rates*, April 2020, https://nces.ed.gov/programs/coe/indicator_ctr.asp.

based 100% on student workforce outcomes and how that change revolutionized the institution’s culture and offerings. In “FastForward: Tripling Credentials by Sharing Risk and Responsibility,” Chancellor DuBois highlights a risk-sharing partnership among students, the Virginia state government, and VCCS to help more students access training for hundreds of in-demand credentials.

GOING BEYOND ACCESS

It is nearly impossible to build and sustain a career without a safe place to live, decent health care, dependable care for children and elders, and social support. Workforce programs have traditionally only funded training costs. This volume presents diverse models for how training providers, employers, and social service agencies can align their incentives and address people’s needs. Dr. Zia Khan of the Rockefeller Foundation, in “Save on Retention, Build Equity,” proposes retention-based contracts in which employers partner with a social service agency to help employees solve problems outside the workplace. As part of its Career Impact Bond, General Assembly makes a variety of wraparound support services available to students, including an emergency aid fund, to help students manage unexpected crises that could otherwise derail them.

TRACKING AND USING OUTCOMES DATA

To pay for outcomes requires a clear understanding of those outcomes. Many of the case studies in this book detail efforts to unlock administrative data—data that is being collected already, albeit often spread across multiple government sources—for use in measurement and continual improvement. For example, Chancellor Reeser details an agreement to ensure student privacy protections while enabling the integration of educational and workforce data, allowing the state to track student earnings five years



Through the book, we see examples of partnerships that go beyond transactional—that bring together agencies to identify solutions and react to real-time data.

following the student’s departure from school. Former Commissioner Wilkinson illustrates how administrative data from multiple state agencies can be integrated to track program impact on housing, child welfare, and employment. And in “Governing for Results: Case Studies from Massachusetts,” Massachusetts Secretary of Education James Peyser and Assistant Secretary Mark Attia highlight the centrality of a novel data-sharing mechanism to track participant earnings that enabled more reliable measurement of program impact for far longer than would be possible using a service provider or self-reported data.

BUILDING ADAPTIVE, COLLABORATIVE PARTNERSHIPS

Building joint, outcomes-focused contracts helps catalyze authentic and sustained collaborations. Through the book, we see examples of partnerships that go beyond transactional—that bring together agencies to identify solutions and react to real-time data. The partnership between San Bernardino County and First Step Staffing depends on frequent meetings, shared dashboards, and continual communication about individual clients. Similarly, Harvard Kennedy School Professor Jeffrey Liebman and U.S. Secretary of Commerce and former Rhode Island Governor Gina Raimondo, in “A Good Job at the End of Training: Rhode Island’s Outcomes-Focused Approach to

Workforce Development,” discuss how a revamped contract structure at Real Jobs Rhode Island catalyzed renewed interagency collaborations. Massachusetts Secretary of Labor and Workforce Development Rosalin Acosta and Assistant Secretary Mark Attia, in “Governing for Results: Case Studies from Massachusetts,” describe the power of collaboration between federal, state, and city governments, and the ability of a robust governance process to enable adaptation to new circumstances.

ENCOURAGING EMPLOYERS TO UNCOVER HIDDEN TALENT BY MITIGATING RISK

Many of the case studies in this volume are focused on demonstration: on allowing nontraditional candidates or programs a chance to demonstrate potential. Resume screens often look for very specific qualifications and prior work experiences—sometimes categorically eliminating certain candidates, such as those who have criminal records. A number of innovators are taking a different approach by searching for hidden talent in people who might otherwise be overlooked.

General Assembly’s Career Impact Bond intentionally shifts away from credit scores and other traditional means of assessing creditworthiness in an effort to unlock potential for those who otherwise wouldn’t have access. Likewise, in “Derisking New Hire Training: A New Talent Model,” Dr. Jeff Frey and Nicole Durham detail how Talent Path takes a similar approach, targeting groups traditionally underrepresented in the technical fields and paying them to go through intensive training. Employers, meanwhile, engage the trainees as consultants, with Talent Path remaining their employer of record. In this way, employers who might not consider a mission-related justification for revamping their hiring processes can tap into new sources of talent. As Tyrone Hampton Jr. and Ashley Putnam describe

in “Rewiring Workforce Partnerships: Training Model Innovation in Philadelphia,” Philadelphia Works has put in place another model focused on job retention, in which Comcast pays for a new source of talent only if placements stay employed for more than six months. This model opens doors for more employer-workforce partnerships to expand hiring and share financial risk between the private and public sector.

LOOKING FORWARD

As you read about the innovations in this book, we imagine that you will often ask, “So, did they work?”

The truth is, despite the long history of performance-based contracts detailed by former Speaker Ryan, these are still early days in the new wave of sophisticated, outcomes-based funding models. Many of the programs profiled here are in their nascent years.

Early data points suggest good reason for optimism. In the Massachusetts Pathways project, for example, results from fall 2020 suggest that the participants who were unemployed when they first enrolled earned \$7,100 more in the second year after enrollment in the English for Advancement program, as compared with a control group. The FastForward initiative in Virginia has already yielded more than 19,000 credentials, and a recent survey of graduates found that wages increased by an average of \$8,000. And since Texas State Technical College pivoted to outcomes-based funding, average first-year graduate earnings have climbed from \$18,000 to \$26,000. Throughout these cases, you will read participant testimonials about the ways in which the programs have helped people overcome challenging circumstances and move toward economic independence.

These are specific, targeted examples. But really, this is a book



Innovation requires cross-sector collaborations and data sharing; alignment surrounding goals and responsibilities; contracts that protect the interests of all parties; and an ongoing focus on results for workers, for employers, and for the economy.

suggesting systemic reforms. In even the earliest examples we see progress: higher rates of engagement between service providers and beneficiaries, greater cross-agency collaboration, and savvier integration of data to understand impact and refine program design. We see partnerships that build flexibility and adaptiveness, enabling survival and innovation in the face of the unprecedented challenges presented by COVID-19, and giving partners the tools to embrace and act on feedback. Of course, flexibility comes with its own risks, too. In the absence of a compliance mindset, many of the collaborations we highlight have developed a more explicit focus on avoiding perverse incentives and ensuring consumer protections such as devising a student bill of rights, creating claw-back provisions, creating evaluation mechanisms resistant to gaming or fraud, and reducing the financial risk taken on by job seekers.

We have curated the cases in this book because they represent models. Though collectively they serve a tiny fraction of the Americans who could benefit, each is ripe for replication and scale.

We have also highlighted some ideas that challenge funders and policymakers to go further. Sir Ronald Cohen,

in “Outcomes Funds for Economic Mobility,” suggests the creation of economic mobility outcomes funds, vehicles to dramatically scale outcomes funding approaches and overcome state-federal “wrong pockets problems.” Dr. Mark Rembert and Aiden Calvelli of the Center on Rural Innovation, in “Could Outcomes Funding Work in Rural America?,” address ways to overcome longstanding barriers and bring outcomes-based funding to underserved communities in rural America. In “A Grand Challenge to Reinvent Workforce Development,” Dr. Angela Jackson, managing partner at New Profit, introduces the Future of Work Grand Challenge, an effort to immediately place 25,000 workers displaced by automation and COVID-19 and ultimately reshape workforce development for 12 million Americans through innovation in workforce development.

Continued innovation around funding and outcomes will be needed to adapt to the pressure of technology change and address disparities in the labor market. Innovation requires cross-sector collaborations and data sharing; alignment surrounding goals and responsibilities; contracts that protect the interests of all parties; and an ongoing focus on results for workers, for employers, and for the economy.

We invite you to reflect upon how the cases presented in this book might relate to the needs of your communities and your organizations; to connect with us for support, resources, and ideas; and to act.





PUBLIC POLICY





1

BUYING OUTCOMES

LESSONS FROM THE PAST

/ FORMER SPEAKER OF THE HOUSE PAUL RYAN /

America is at a moment of great need and great opportunity in the fight against poverty. Amid a global pandemic and recession, the importance of disrupting the stale institutions in place to tackle these challenges has become clearer than ever before.

I've been concerned for years by our country's approach to reigniting upward mobility. Our efforts have too often originated in Washington with little input from the individuals on the ground working to expand opportunity and those with lived experience, leading to approaches that further



Social impact bonds bring together the best of the public and private sectors to address the most critical issues our country is facing. The goal of a social public good—a world in which far fewer Americans live in poverty—is central to their execution.

displace and marginalize those living in poverty. It's when we innovate together to solve this problem—combining the vibrancy of community-based solutions, the know-how of the private sector, and the scale of government policy—that we have the greatest potential to make a difference.

Social impact bonds bring together the best of the public and private sectors to address the most critical issues our country is facing. The goal of a social public good—a world in which far fewer Americans live in poverty—is central to their execution. So too is the expertise and capital of the private sector, which provides the funding, strategic thinking, and energy to deploy resources where most needed. When executed properly, programs like these have enormous promise.

Unfortunately, the long history of performance-based contracting in American civic life includes frequent examples of programs that have not achieved their desired results. Over the past four decades, the government has attempted to structure several programs that offer payouts to impact investors based on provider performance to drive better outcomes. Although these programs were created with the best intentions in mind, they have driven little improvement to the status quo. Identifying and addressing



Well-executed performance-based contracting offers benefits for all parties involved: by shifting spending risk away from governments, creating positive feedback loops based on provider effectiveness, and facilitating the collection of data on intervention outcomes.

the challenges they have faced will be critical to designing the next generation of performance-based contracts.

For example, a common shortcoming of performance-based contracts is that many fail to differentiate payouts according to the level of need of the target populations. Without adjusting payments to account for different levels of risk and vulnerability among participants, service providers are penalized for serving people with greater needs. Initiatives across workforce development, education, and health care have made this same mistake, creating incentives against serving the populations most in need of support.

When performance-based contracts are set up well, shortfalls are mitigated, and the programs have significant potential to improve lives. Well-executed performance-based contracting offers benefits for all parties involved, by shifting spending risk away from governments, creating positive feedback loops based on provider effectiveness, and facilitating the collection of data on intervention outcomes.

As the next generation of performance-based contracts takes hold—strengthened by groundbreaking federal

legislation, such as the Social Impact Partnerships to Pay for Results Act (SIPPR)—it is essential that we learn from past challenges. Historical examples from workforce development and health care offer lessons on how to mitigate typical shortcomings and fully unlock the potential of performance-based contracting.

JOB TRAINING PARTNERSHIP ACT (1982)

Going back to the 1980s, federal legislation has tied payments to employment outcomes achieved by program participants. The '60s and '70s saw the rise of several federal training programs but few that led to positive results.¹ Unemployment rates continued to increase among groups targeted by government jobs programs, and even large organizations like Job Corps failed to show significant sustained impacts.² Through multiple programs, the federal government began allocating dollars to local jurisdictions partially based on participants' employment outcomes in an attempt to support higher quality job training initiatives.

The Job Training Partnership Act (JTPA) of 1982 was one such program. Developed through a bipartisan effort led by former Sens. Dan Quayle, Edward Kennedy, Paula Hawkins, and Claiborne Pell and by former Reps. Augustus Hawkins and James Jeffords, it was signed into law by then President Reagan. The bill aimed to improve employment rates for low-income Americans by providing budgetary rewards and sanctions to jurisdictions based on the near-term labor market outcome levels achieved by participants.

To carry out its purpose, the JTPA established federal

¹ James Bovard, "The Failure of Federal Job Training," Cato Institute, Policy Analysis no. 77, August 28, 1986, www.cato.org/policy-analysis/failure-federal-job-training.

² U.S. Department of Labor, *Report to the Employment and Training Administration: Job Corps Could Not Demonstrate Beneficial Job Training Outcomes*, March 30, 2018, www.oig.dol.gov/public/reports/oa/2018/04-18-001-03-370.pdf.

assistance for adult and youth programs, federally administered programs (such as training for migrant workers and veterans), summer youth employment and training programs, and training assistance for workers affected by layoffs. The program established a performance management system that provided rankings of 620 Service Delivery Areas (SDAs) and set aside funding to reward SDAs that performed particularly well relative to the overall labor market.

To evaluate outcomes, the JTPA originally considered four performance measures: rate of entering employment, average wage at placement, cost per participant who entered employment, and rate of entering employment among welfare recipients. However, states were given considerable flexibility to select comparison data and define favorable terms. Where improved results existed, it became clear that they had been driven by the selection of participants who had fewer needs and, therefore, were easier to serve.³

By the early 1990s, the JTPA was spending \$1.5 billion annually in federal and state funds to provide employment and training services.⁴ However, a 1991 report from the U.S. Government Accountability Office revealed that there were discrepancies in the services offered to women and minorities, affirming the limitations to the program's results and reach.⁵ The JTPA was suffering from several common challenges, as identified in an analysis by Burt Barnow and Jeffrey Smith:⁶

- **The program provided stronger incentives to serve less vulnerable populations:** JTPA incentives treated all program participants equally, which led to higher margins for service providers who chose to serve lower-need individuals. The program did not serve groups such as women and people of color in proportion to their share of the eligible population, while individuals who would likely have achieved high post-training earnings regardless of the quality of the training were disproportionately represented. A structure that assigns different levels of value based on the need of the population might have addressed this challenge.
- **The timing of performance incentives skewed services provided:** In some cases, the length of the training programs was influenced by program managers' desire to count participants in their data for a particular program year. These arbitrary timing changes were found to reduce the overall mean impact of the training services the program provided. Updates to monitoring and reporting systems may limit the extent to which programs are able to manipulate data in this way.
- **There was limited support that incentives improved individual performance:** It is unclear that the project improved the individual efficiency of employees in the absence of incentives at the individual employee level. Future performance-based contracts may explore how service providers can pass on incentive payments to their employees and how they can track individual performance without adding significant overhead costs.
- **Some providers gamed the compensation system:** There is strong evidence that JTPA service providers developed strategies to earn higher payments by gaming the performance system. A common gaming strategy involved formally enrolling participants in the program only after they had found jobs, and then quickly terminating them to increase the proportion of employed individuals. Adjusting reporting requirements and improving metrics

³ Patrick Lester, "The Promise and Peril of an 'Outcomes Mindset,'" *Stanford Social Innovation Review*, January 13, 2016, www.ssiir.org/articles/entry/the_promise_and_peril_of_an_outcomes_mindset.

⁴ U.S. Government Accountability Office, *JOBS and JTPA: Tracking Spending, Outcomes, and Program Performance*, July 26, 1994.

⁵ U.S. Government Accountability Office, *Job Training Partnership Act: Racial and Gender Disparities in Services*, October 25, 1991.

⁶ Burt S. Barnow and Jeffrey A. Smith, "Performance Management of U.S. Job Training Programs," in *Job Training Policy in the United States*, ed. Christopher J. O'Leary, Robert A. Straits, and Stephen A. Wandner (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research), 21–56, <https://doi.org/10.17848/9781417549993.ch2>.

and evaluation systems could help reduce the extent to which gaming can yield higher payments.

As a result of its structural challenges and the limited improvement to participants' employment outcomes, the JTPA was repealed in 1998. The program's failure to segment target populations, its focus on measurements that were not linked to individual performance, and its lack of safeguards to avoid gaming the system are valuable reminders of the potential risks of performance-based contracting in workforce development. However, these mistakes also offer lessons regarding critical areas of focus for other pay-for-performance programs to succeed in the future.

TICKET TO WORK (1999)

In 1999, another performance-based workforce development program emerged that aimed to increase the number of low-income Americans achieving economic self-sufficiency. At the time, only 0.5% of Social Security Disability beneficiaries were leaving the benefit rolls because they secured jobs. Legislators hoped to create a better market to meet the diverse return-to-work service needs of beneficiaries and increase the rate of exiting the program due to work to 1%.⁷

The Ticket to Work and Work Incentives Improvement Act of 1999 was designed to support this mission by promoting flexible, customizable services to help disability insurance beneficiaries secure self-supporting jobs. The program incentivized private organizations and state agencies to deliver quality services by providing large payments for each client who secured a job and retained it for long enough to stop receiving Social Security Disability benefits. Beyond

these financial incentives, the act was designed to support creativity and personalization by allowing organizations and beneficiaries to customize the programming available to each participant.

The Ticket to Work (TTW) program worked by providing "Tickets" to Social Security Disability recipients in the mail, which they could opt to bring to a participating employer network to negotiate a set of services. For an employer network to receive payments, the participant was required to submit salary documentation. The program tied payment to long-term performance by requiring a beneficiary to stop receiving Social Security Disability benefits due to increased earnings for 60 months before the provider could earn full payment.

Despite the program's intent to reach a broad group of beneficiaries, its early success was limited: By 2005, only 2% of individuals who received Tickets in the mail had used them, and only 45% of the 1,300 enrolled employer networks had accepted a Ticket.⁸ Like the JTPA, TTW's outcomes suffered from a range of shortfalls:

- **Providers perceived the system as too financially risky:** TTW tied 100% of provider compensation to outcomes, which caused significant uncertainty as to whether payouts would be achieved. Research showed that after the first two years of program operations, employer networks relying on TTW payments as their sole source of revenue would have lost money: The cost of service delivery far exceeded TTW revenues for most providers. Offering upfront operating capital to providers in addition to outcomes-based payments, as many social impact bonds now do, might have helped to mitigate this challenge.

⁷ Craig Thornton, et al., *Evaluation of the Ticket to Work Program: Initial Evaluation Report* (Mathematica Policy Research, Inc., February 2004), www.ssa.gov/disabilityresearch/ttw/ttw_report.pdf.

⁸ Thornton, et al., *Evaluation of the Ticket to Work Program: Assessment of Post-Rollout Implementation and Early Impacts, Volume 1* (Mathematica Policy Research, Inc., May 2007), www.ssa.gov/disabilityresearch/ttw3/ttw_report3.pdf.

- **The program provided higher payouts to providers serving less vulnerable populations:** Like other unsuccessful performance-based contracts, TTW created selection bias against harder-to-serve individuals and services less likely to lead to quick employment. Providers could refuse to serve individuals they thought were unlikely to maintain high enough earnings to stop receiving benefits and, therefore, unlikely to trigger outcome payments. They could also choose to offer services that aligned only with the outcomes payments they were likely to receive. Differentiating payment amounts based on participants' level of need could have helped avoid rewarding providers for serving the lowest-need clients.
- **The benefits structure discouraged some beneficiaries from returning to work:** The program did nothing to address that participants would lose 100% of their Social Security Disability benefits once their monthly earnings exceeded a certain threshold, which created a significant barrier for returning to work. Structuring the program to scale the reduction of benefits more gradually might have increased the value proposition of returning to the workforce for participants.
- **Reporting and administrative burdens fell on service providers and participants:** Finally, there were significant administrative challenges that delayed outcomes measurement and provider repayment. Beneficiaries were expected to submit salary documentation to employer networks but given no incentive to do so, which made it difficult for employer networks to demonstrate that monthly earnings had reached the designated threshold. Establishing data-sharing provisions upfront might have minimized administrative burdens and streamlined the system for triggering repayment.

From 2004 to 2007, TTW experienced a gradual decline in terms of provider interest and the number of Tickets



The increase in participation in TTW following the 2008 legislation reform affirms the importance of seeking service provider input to mitigate unforeseen barriers to entry. Things have certainly improved for TTW, which now benefits hundreds of thousands of Americans each year.

assigned.⁹ During that time, the program collected feedback from service providers, which suggested that TTW shorten the length of the payment period and offer larger payments earlier in the period. Providers also requested that the program award payouts for partial success and simplify the requirements for documenting participant salary levels.

In response to provider feedback, a set of revisions passed in 2008 that increased the number and total value of provider payments, shortened the period of participant employment for employer networks to receive full payment from 60 to 36 months, and revamped payment procedures to reduce administrative burden. The revised system was significantly more attractive to providers, and the number of employer networks that accepted at least one Ticket doubled from 2007 to 2010.¹⁰

The increase in participation in TTW following the 2008 legislation reform affirms the importance of seeking service provider input to mitigate unforeseen barriers to entry. Things have certainly improved for TTW, which

⁹ Jody Schimmel, David Stapleton, David R. Mann, and Dawn Phelps, *Participant and Provider Outcomes Since the Inception of Ticket to Work and the Effects of the 2008 Regulatory Changes: Final Report* (Mathematica Policy Research: Center for Studying Disability Policy, July 25, 2013), ssa.gov/disabilityresearch/documents/TTW-NSTW%20Report-Final-072513.pdf.

¹⁰ Schimmel, Stapleton, Mann, and Phelps, *Participant and Provider Outcomes Since the Inception of Ticket to Work and the Effects of the 2008 Regulatory Changes: Final Report*.

now benefits hundreds of thousands of Americans each year, but perverse incentives continue to be a challenge. Lessons from the program have demonstrated that getting performance-based contracts right takes consistent management and flexibility.

PHYSICIAN PAY-FOR-PERFORMANCE (2005-2018)

Health care is another area in which performance-based contracting offers both the potential to improve service quality and the risk of gaming and poorly structured incentives. The U.S. spends more on doctors, pharmaceuticals, and health administration as a percentage of gross domestic product than any other high-income nation yet does not enjoy better health outcomes.¹¹ To combat rising costs and improve quality, states, health care systems, insurance companies, and federal agencies have piloted pay-for-performance (PFP) programs for physicians and hospitals across the country. The success of these programs, however, has been largely uneven.

In 2018, researchers from the University of Pittsburgh and Harvard University published a study reporting that Medicare PFP programs failed to improve health care quality or reduce costs.¹² Rather than promote better outcomes, the program penalized physicians who cared for lower-income and sicker patients because the doctors' "quality scores," and therefore payment, decreased. The program's structure emphasized health outputs over baseline improvement, creating financial disincentives for doctors to treat patients who were less healthy.

¹¹ Irene Papanicolas, Liana R. Woskie, and Ashish K. Jha, "Health Care Spending in the United States and Other High-Income Countries," *The Commonwealth Fund*, March 13, 2018, www.commonwealthfund.org/publications/journal-article/2018/mar/health-care-spending-united-states-and-other-high-income.

¹² Kip Sullivan and Stephen Soumerai, "Pay for Performance: A Dangerous Health Policy Fad That Won't Die," *STAT*, January 30, 2018, www.statnews.com/2018/01/30/pay-for-performance-doctors-hospitals.



In one example of how a poorly designed PFP program created perverse incentives, a rural VA hospital turned away an 81-year-old veteran, even though the medical staff asserted that the veteran was too sick to return home. The hospital denied admission to the veteran with the understanding that, by limiting the number of sick patients admitted, it would produce fewer bad outcomes.

Providing higher payouts to those who serve healthier patients is a key issue in physician PFP programs, in which financial incentives often fail to promote health improvements over specific health outputs. While physician skill is an important component of health quality, factors such as the patient's baseline health, socioeconomic status, access to insurance, and exercise habits all contribute to health outcomes and are largely outside of the doctor's control. PFP programs that exclusively target physician pay without supporting other interventions draw a direct link from individual clinician skill to patient health that can create financial disincentives to treat the sickest patients.

In one example of how a poorly designed PFP program created perverse incentives, a rural Veterans Affairs (VA) hospital turned away an ill 81-year-old veteran, even though the medical staff asserted that the veteran was too sick to return home. The hospital denied admission to the veteran with the understanding that, by limiting the number of sick patients admitted, the hospital would produce fewer bad outcomes. Rather than paying for success, the program's failed measurement standards enabled the hospital to improve its quality rating, receive greater funding, and

earn a bonus payment for the hospital's director without driving real improvement in veterans' health outcomes.¹³

The lack of success of physician and hospital PFP programs has led many critics to call for an end to PFP in health care. However, it's possible that an outcomes-based funding system could be effective in the absence of poor project design, weak measurement, incorrect outcome criteria, and flawed linkages between the intervention and outcomes. Past PFP programs struggled because they were structured around the underlying concept that financial rewards to physicians could improve outcomes in a vacuum. A stronger design could rescue the core concept.

SOCIAL IMPACT PARTNERSHIPS TO PAY FOR RESULTS ACT (2018)

As we've seen, performance-based contracts can fall victim to predictable design errors. But, when structured well, these programs have the potential for impressive results. In support of improving the effectiveness of social services, the Social Impact Partnerships to Pay for Results Act (SIPPRA) was signed into law in 2018.

SIPPRA brings great promise for the next generation of performance-based contracts. The act appropriates \$100 million to the U.S. Department of the Treasury, \$15 million of which is set aside for evaluation costs to support state and local governments in building a foundation for outcomes-based decision-making. Funding can be used across a range of issue areas, including child and family welfare, health, education, and employment, creating extensive opportunities to address the country's most pressing needs.

¹³ Dave Philipps, "At Veterans Hospital in Oregon, a Push for Better Ratings Puts Patients at Risk, Doctors Say," *The New York Times*, January 1, 2018, www.nytimes.com/2018/01/01/us/at-veterans-hospital-in-oregon-a-push-for-better-ratings-puts-patients-at-risk-doctors-say.html.



In building programs based on evidence of what works, SIPPRA has the potential to finance the most effective solutions for fighting poverty, which originate not from Washington, but from leaders on the ground in communities across the country.

I'm personally incredibly proud of SIPPRA and the principles it follows. First and foremost, SIPPRA takes a clearly evidence-based approach to lifting Americans out of poverty: Funding flows to programs whose methods have been evaluated using data, supporting real-world efforts that achieve positive results.

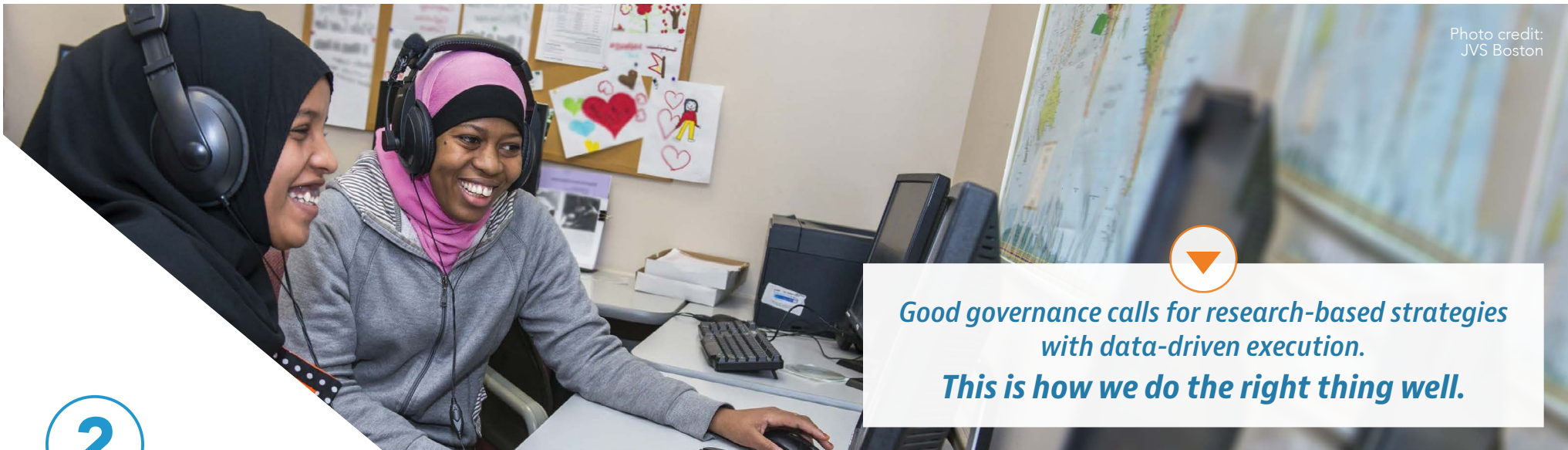
In building programs based on evidence of what works, SIPPRA has the potential to finance the most effective solutions for fighting poverty, which originate not from Washington, but from leaders on the ground in communities across the country. SIPPRA funding will support individuals and organizations that have been making a difference in their communities for decades while bringing their ideas to policymakers to expand their reach. This intersection of community-based approaches and government support is what will ultimately most improve the lives of Americans in need.

With a new generation of performance-based contracts on the horizon, I'm hopeful we can learn from the challenges of past programs and continue to harness their momentum. The following chapters, which outline the approaches of a range of recent PFP programs, offer

insight into the factors that have allowed these initiatives to succeed. It's time we carried forward their lessons to implement solutions that work for our communities, by educating policymakers, trusting the power of evidence, and incorporating the ideas of Americans who have confronted barriers to upward mobility for too long and deserve a voice in this fight.



Paul Ryan is the president of the American Idea Foundation and served as the 54th Speaker of the U.S. House of Representatives. In office from October 2015 to January 2019, he was the youngest speaker in nearly 150 years.



*Good governance calls for research-based strategies
with data-driven execution.
This is how we do the right thing well.*

2

GOVERNING FOR RESULTS

CASE STUDIES FROM MASSACHUSETTS

**/ GOVERNOR CHARLIE BAKER,
SECRETARY JAMES PEYSER,
SECRETARY ROSALIN ACOSTA,
ASSISTANT SECRETARY MARK ATTIA**

INTRODUCTION

/ Governor Charlie Baker /

My father always said that life is not just about doing the right thing; it is also about doing the right thing well. Too often in government, I have seen people prioritize the former while neglecting the latter. They mistake their motives as results. This approach commonly leads to band-aid solutions that will require expensive and time-intensive emergency procedures in the future. Instead, good governance calls for research-based strategies with data-driven execution. This is how we do the right thing well.

Using data to inform service delivery and policy is the north star for government—a continual cycle of data collection and analysis to update what we believe positions government to be reliable, agile, and effective. Not only are we able to track progress toward our original objectives, but we are also better equipped to respond to unforeseen situations.

Advancing the government ethos from recording outputs to measuring outcomes is imperative. Good data should tell us not only the volume of services but also the benefit to the community. By procuring results—not just activities—agencies can drive a significant cultural change that transforms the relationship between constituents, service providers, and lawmakers.

This makes way for collaborative partnerships that can unlock entrepreneurial approaches to achieve desired outcomes. Moreover, it can serve as a decompressor for many political issues by introducing clear and objective metrics. More importantly, it helps all stakeholders focus on what matters most—how we realize common goals.

I say all the time, “Figure out what works and do more of it.” Our administration works hard not only to take heed of our accomplishments but also to understand what it took to succeed. When policymakers are successful at delivering for their constituents and constituents have faith in the quality of our service, there is real, lasting impact.

One of the areas where our administration has exemplified doing the right thing well is expanding workforce development opportunities throughout the Commonwealth. As one of the administration’s top priorities, bridging the skills gap between workers and the needs of employers in the 21st century economy comes with many challenges. Our administration has embraced those challenges using sound research, consistent data analysis, and interdisciplinary coordination through the Workforce Skills Cabinet, which was created in 2015 to reorient goals from exclusive, program-specific outputs to community-enhancing outcomes.¹

¹ The Workforce Skills Cabinet brings together the secretariats of Education, Labor and Workforce Development, and Housing and Economic Development to align education, economic development, and workforce policies and to strategize around how to meet employers’ demand for skilled workers in each region of the state.

The following two case studies illustrate our administration’s focus on making smart investments in promising, evidence-supported programs, coupled with a rigorous evaluation of results. These programs enable a diverse array of people to make meaningful progress up the economic ladder through successful transitions to employment, higher wage jobs, and higher education.

Case Study

EXPANDING ECONOMIC MOBILITY FOR IMMIGRANTS AND REFUGEES

/ Secretary James Peyser + Assistant Secretary Mark Attia /



Photo credit: JVS Boston

Immigrants and refugees are important drivers of the economy in Massachusetts. Given the nature of our economy and our changing demographics—an aging workforce and growing diversity—adult education is not only essential to creating opportunity for low-income individuals and families but also an economic imperative. As a key segment of our workforce, new Americans offer a historically untapped talent pipeline that can be part of a viable solution to the growing skills gap. English language acquisition, married to marketable skills and complemented by career readiness and job search supports, can help to unlock better opportunities for tens of thousands of immigrants who have the potential to build their careers and contribute to our state’s growth.

In the U.S., foreign-born workers who are proficient in English have higher median wages than those who are

not—\$45,954 compared to \$29,185.² English proficiency is a key factor in predicting employment rate, earnings, achievement of managerial roles, as well as home ownership and household self-sufficiency.

While Massachusetts has long had some of the highest educational performance in the country, the state recognized challenges in supporting the employment and career success of English language learners and those who have not achieved high school credentials. The Greater Boston area is home to about 230,000 adult English language learners.³ Studies estimate that limited English speakers in Massachusetts earn roughly \$24,000 less annually than immigrants who speak English fluently.⁴ A significant portion of residents do not hold a high school diploma or equivalent (approximately 11%) and/or earn less than \$15,000 per year (approximately 12%).⁵ In addition, roughly 10% of the adult population lacks proficiency in English.⁶



We built a mechanism that paid for outcomes: releasing funding to the extent that programs are successful at getting English language learners into stable, well-paying jobs.

² The Workforce Skills Cabinet brings together the secretariats of Education, Labor and Workforce Development, and Housing and Economic Development to align education, economic development, and workforce policies and to strategize around how to meet employers' demand for skilled workers in each region of the state.

³ Commonwealth of Massachusetts Executive Office for Administration and Finance, *Social Innovation Financing for Adult Basic Education—Intermediaries*, February 2014.

⁴ Lisa Soricone, et al., *Breaking the Language Barrier: A Report on English Language Services in Greater Boston* (The Boston Foundation, March 2011), www.tbf.org/~media/TBFOrg/Files/Reports/ESOL_Report_Final18.pdf.

⁵ Commonwealth of Massachusetts Executive Office for Administration and Finance, 2014.

⁶ Boston Planning & Development Agency Research Division, *Demographic Profile of Adult Limited English Speakers in Massachusetts*, February 2019, www.bostonplans.org/getattachment/dfe1117a-af16-4257-b0f5-1d95dbd575fe.

Although considerable resources have been devoted to providing workforce initiatives and basic adult education to aid these individuals in gaining competitive employment in the labor market, demand for services remains high as the majority of new jobs are projected to require at least some postsecondary education. Access to the right services can be especially important in helping those with limited English skills increase their earnings and make successful transitions to higher education.

While English fluency on its own has clear employment benefits for workers and for the economy, it is often not enough to help people attain good jobs or advance their careers. Research and practitioner experience indicate that the vast majority of English for Speakers of Other Languages (ESOL) programs are not well-designed to meet the employment needs of the population it serves.⁷ Enrollment and “seat time” in narrowly crafted language acquisition programs are not always a clear proxy for future earnings.

Instead of paying for hours that students spend in classrooms, we built a mechanism that paid for outcomes: releasing funding to the extent that programs are successful at getting English language learners into stable, well-paying jobs after training.

This can help to tap into new sources of talent. The Commonwealth, like the nation, faces a skills gap: a disconnect between available jobs employers want to fill and the readiness of the labor market to fill those jobs.⁸ Nationally, this gap leaves 4.4 million jobs unfilled.⁹ Immigrants may arrive in the Bay State with in-demand

⁷ Soricone, et al., *Breaking the Language Barrier*.

⁸ Elizabeth Mann Levesque, *Understanding the Skills Gap—And What Employers Can Do About It* (Brookings Institution, December 2019), www.brookings.edu/research/understanding-the-skills-gap-and-what-employers-can-do-about-it.

⁹ Dan Restuccia, Bledi Taska, and Scott Bittle, *Different Skills, Different Gaps: Measuring & Closing the Skills Gap* (Burning Glass Technologies, March 2018), www.burning-glass.com/wp-content/uploads/Skills_Gap_Different_Skills_Different_Gaps_FINAL.pdf.



One of the Commonwealth's goals in spearheading this project is to better understand what works in the adult education and workforce development space.

technical knowledge, but without strong language skills or industry credentials and career readiness they may not secure jobs that draw on their full potential.

LEADING THE WAY IN PAY FOR SUCCESS

Massachusetts has been the nation's leader in developing a new set of outcomes-based public funding tools. Since 2012, the Commonwealth has innovated with contracting strategies that link payment to results (often referred to as Pay for Success).¹⁰ These tools have funded programs across a wide range of issues, such as improving outcomes for young men exiting the juvenile justice system, creating stronger supports for people experiencing chronic homelessness, and expanding job services for veterans.

Tools like these let the state pay only for successful results achieved, rather than for program delivery. Taxpayer money is released only to programs that are effective. Meanwhile, programs are given a mandate to move beyond the compliance mindset of many service-focused contracts and be more adaptive and responsive in their delivery.

¹⁰ In 2012 the Commonwealth authorized the Secretary of Administration and Finance to enter into "Pay for Success contracts," pledging its full faith and credit to payments made under such contracts up to \$50 million in the aggregate. Massachusetts General Laws, Part I, Title II, Chapter 10, Section 35VV: Social Innovation Financing Trust Fund, <https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter10/Section35VV>.

¹¹ The Harvard Kennedy School Government Performance Lab provided technical assistance to the Commonwealth in setting up this initiative.

MASSACHUSETTS PATHWAYS TO ECONOMIC ADVANCEMENT

Recognizing that vocational training for adult English language learners can help address the skills gap in the Massachusetts economy, in 2017 the Commonwealth partnered with JVS Boston and Social Finance to launch Massachusetts Pathways to Economic Advancement, aimed at increasing employment opportunities for those with limited English skills and helping them move up the economic ladder.¹¹

The three-year program is designed to serve 2,000 adults in Greater Boston. Vocational English classes, integrated with job search assistance and coaching, help limited English speakers in making successful transitions to employment, higher wage jobs, and higher education. Programs are conducted by JVS, one of Boston's oldest and largest community-based workforce and adult education providers. The project intermediary, Social Finance, raised \$12.43 million from over 40 investors—including financial institutions, donor-advised funds, individuals, and foundations—to fund JVS' services. Meanwhile, an independent evaluator, Economic Mobility Corporation, is measuring outcomes among project participants: post-program earnings, successful transitions to higher education, and program engagement.

At the center of all of this work is a contract: The Commonwealth has agreed to release funds on the basis of the evaluator's findings—that is, to pay *to the extent* that JVS successfully achieves positive outcomes for participants.

One of the Commonwealth's goals in spearheading this project is to better understand what works in the adult education and workforce development space. The robust data collection and evaluation elements of this project support the partners' objective to drive resources toward

programs that achieve positive results for participants. Learnings from the evaluation results of this project can inform program design as well as our state’s public policy.

WHAT WE HAVE LEARNED SO FAR

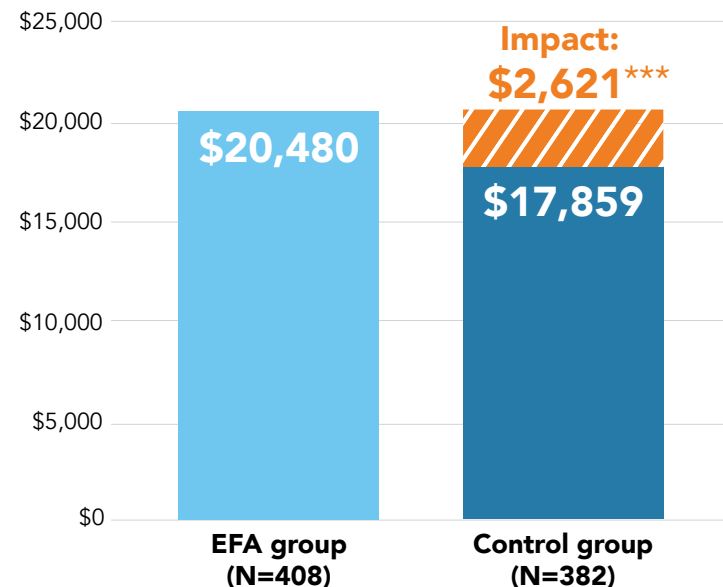
According to the first results of Economic Mobility Corporation’s independent randomized controlled trial, people in the English for Advancement track of the program increased their earnings by \$3,505 over the first two years as compared with those in the control group. Participants who were unemployed when they first enrolled with prior U.S. work experience earned \$7,100 more in the second year after enrollment as compared with the control group.¹² The program has now engaged more than 1,000 immigrants and refugees across four cities.

- **Testing innovation:** While they are sometimes complex to structure and implement, outcomes-based contracts can provide flexibility and space to innovate. In Massachusetts Pathways, JVS was able to expand English for Advancement, a relatively new program, and carefully measure its effectiveness through an experiment—the results of which will inform the state’s policies and the national workforce literature.
- **Data-driven insights:** Massachusetts Pathways was able to make use of a rich state dataset to measure project outcomes. Project partners created a novel data-sharing mechanism to use the state’s Department of Unemployment Assistance data to track participant earnings, enabling reliable measurement of program impact for far longer than would be possible using service provider or self-reported data.

¹² Anne Roder and Mark Elliott, *Stepping Up: Interim Findings on JVS Boston’s English for Advancement Show Large Earnings Gains* (Economic Mobility Corporation, November 2020), <https://economicmobilitycorp.org/stepping-interim-findings-jvs-bostons-english-advancement-show-large-earnings-gains>.

/ **FIGURE 1** /

Average Annual Earnings in the Second Year



Note: Figures are for all study participants, including those with zero earnings during the period. Statistical significance level: ***p<.001

Original chart: Economic Mobility Corporation

Massachusetts Pathways has begun to establish what works and for whom. For example, there is growing evidence to suggest the importance of establishing a learning community—a cohort of people who can turn to one another, with the support of their coach, for questions about the program and beyond—to reinforce the program model. Approaches like this program give us greater, and more specific, insight into emerging best practices and how they apply for specific groups of people.

- **Collaborative, adaptive governance:** Three secretariats of the Commonwealth—the Executive Office for Administration and Finance, the Executive Office of Labor and Workforce Development, and the Executive Office of

Education—meet regularly with JVS and Social Finance to review project progress, troubleshoot challenges, and adapt to changing realities. This governance structure provides regular channels of communication between project partners, enabling us to realize greater impact through real-time, continual improvement efforts and close cooperation.

WHAT'S NEXT?

Models like Massachusetts Pathways are more important than ever in the wake of the pandemic.

Having built evidence around what works, we've begun to bring these kinds of successful practices to scale. In 2020, the Commonwealth's Adult and Community Learning Services division built on the Massachusetts Pathways model by launching a new outcomes-based procurement focused on funding client assessments, adult education training, and job placement services to people with limited education and job history and challenges such as housing insecurity, criminal justice involvement, and physical or behavioral health needs. Also in 2020, the Workforce Skills Cabinet launched the Career Technical Initiative, a program aimed at training an additional 10,000 skilled trade workers over the next four years by leveraging the underutilized capacity of the state's network of vocational-technical schools in partnership with local employers, using a performance-based funding model that pays for successful program completion and sustained post-graduate employment. In the initiative's launch year, 10 regional vocational-technical schools have been approved to host evening programs for adult learners pursuing industry-recognized credentials in transportation, construction, and manufacturing.

As we structure broad procurements to shape the future of workforce development, we will use these lessons to shape

the ecosystem of services, ensuring that powerful programs like those funded through Massachusetts Pathways will continue to be available to the community as we face the hard work of recovery.

Looking ahead, we will continue innovating by tying funding to results, using administrative data to validate progress and guide adaptation, and building collaborative partnerships with education and training providers to get better outcomes for participants across the Commonwealth.

Case Study

VETERANS CARE: IMPROVING EMPLOYMENT AND HEALTH OUTCOMES FOR VETERANS WITH SERVICE-CONNECTED PTSD



/ Secretary Rosalin Acosta + Assistant Secretary Mark Attia /

Massachusetts has long been committed to caring for our veterans. Over 325,000 Bay Staters have served in the active military, naval, or air service.¹³ The U.S. Department of Veterans Affairs' (VA) National Center for PTSD estimates that between 11% and 20% of veterans who served in Iraq and Afghanistan experience post-traumatic stress disorder (PTSD) in a given year.¹⁴ Some face significant challenges in transitioning back to civilian life and securing stable jobs

¹³ National Center for Veterans Analysis and Statistics, *Veterans as a Percent of County Population*, September 2018, www.va.gov/vetdata/docs/SpecialReports/State_Summaries_Massachusetts.pdf.

¹⁴ U.S. Department of Veterans Affairs, "How Common is PTSD in Veterans?" accessed April 5, 2021, www.ptsd.va.gov/understand/common/common_veterans.asp.

while living with symptoms such as anxiety, depression, and difficulty concentrating; and persistent unemployment can exacerbate symptoms, creating a negative feedback cycle. Although the VA, the U.S. Department of Labor, and others have programs to help veterans find jobs after their service, there was no employment program that focused specifically and solely on veterans with PTSD until 2018.

In 2018, we launched the Veterans Coordinated Approach to Recovery and Employment (Veterans CARE) Pay for Success project. The effort seeks to improve outcomes for veterans by scaling Individual Placement and Support (IPS)—an evidence-based intervention that has demonstrated increased competitive employment—for veterans with service-connected PTSD through rapid skills development and integration with existing veterans' mental health care programs.



Veterans CARE is the first Pay for Success project to bring together each level of the public sector. It is a powerful example of federal, state, and city governments working together to support veterans in need.

PROJECT GOALS AND STRUCTURE

Veterans CARE is a chance to collaborate closely with partners at the VA and the city of Boston to help close gaps in our service delivery ecosystem.

To launch the program, the VA Innovation Center committed \$3 million, with funds matched by the Commonwealth of Massachusetts, the city of Boston, and New York City. In total, \$6 million in outcomes funds can be unlocked through achieving success metrics: veteran earnings and sustained competitive employment, degree of job satisfaction, and high quality program implementation. An

independent evaluator, Westat, is assessing the project's impact; the program is coordinated by the Tuscaloosa Research and Education Advancement Corporation; and Social Finance supports project governance and performance management.

Veterans CARE is the first Pay for Success project to bring together each level of the public sector. It is a powerful example of federal, state, and city governments working together to support veterans in need, and we have already seen the operational partnerships between the Commonwealth and the VA result in better outcomes for the people we are serving.

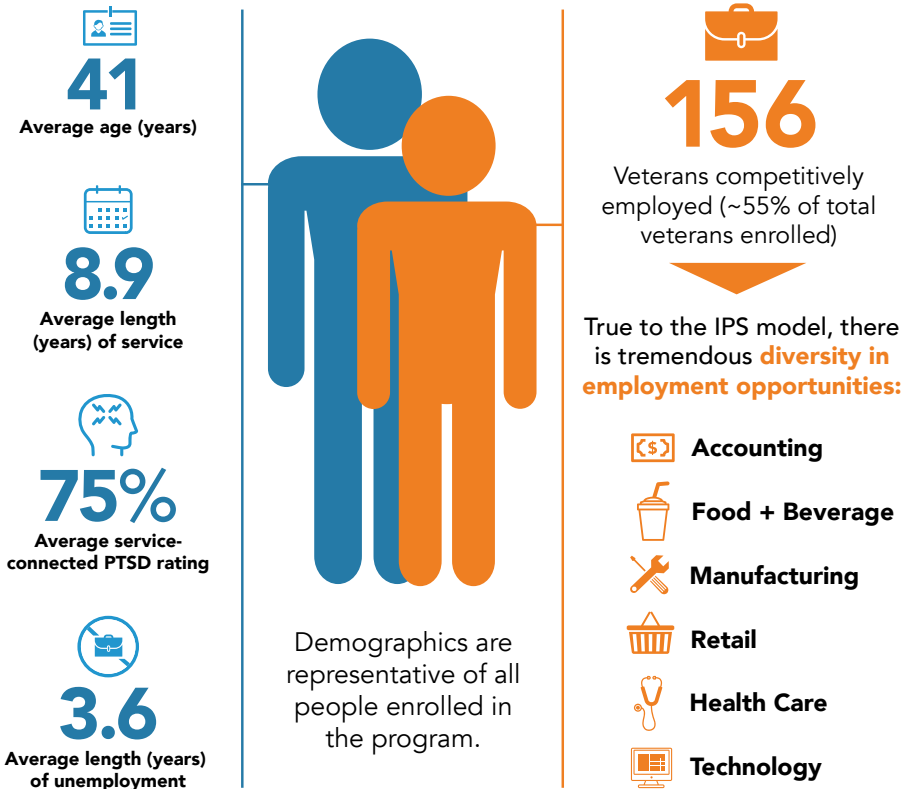
RESULTS TO DATE

At the point of enrollment, eligible veterans had, on average, been unemployed for over three years. Despite unprecedented disruptions to service delivery presented by COVID-19, as of December 2020, 55% of participants were employed. The average participant had earned approximately \$14,000 over the past year and had worked 87 days. Participants report improved management of PTSD symptoms, even following the shift to remote delivery of services.

The stories of individual participants make these numbers come alive. Christine (name changed to protect her privacy) is a veteran who was struggling with substance use and living in a transitional housing program at the time of enrollment. She worked with her IPS specialist to draft a resume, begin building her credit score, and secure a volunteer opportunity in her field, which did not pay but helped her regain her confidence. She then found a part-time job with UPS, used earnings from that job to buy a car, and secured an apartment. Her IPS specialist continues to meet with her to provide ongoing coaching.

/ **FIGURE 2** /

Demographics and Employment Outcomes



Data as of 3/12/2021
Original chart: Social Finance

What we have heard is that veterans appreciate the individualized approach, the integration of rehabilitation and mental health services, and the systemic yet customized approach to job development. In the words of one participant, “I don’t feel like a number within a large bureaucracy; it’s more personalized.”

We have also begun to learn more about—and adapt faster to—the needs of the people that Veterans CARE is serving. As COVID-19 began to ripple through the nation,

the magnitude and diversity of issues participants faced expanded far beyond employment to food insecurity, housing stability, and access to mental health care. IPS specialists were able to adjust their role to emphasize both job search help and social support services, drawing on the program’s core principles to integrate mental health, rehabilitation care, and individualized support.

We continue to learn about the priorities and the challenges of those being served by Veterans CARE, and we know there is more to be done. Veterans with military sexual trauma made up an important segment of participants; we can do more to design care tailored to their needs, such as ensuring veterans can select their paired specialist based on gender identity, if desired. As the pandemic recedes, we will need to adapt programming to a changed world: doubling down on new, remote, accessible channels of care when they are working and making a concerted and long-term effort to mitigate the impact of the pandemic on participants’ basic needs. Continuing to get good outcomes begins with listening and learning, and then meeting each veteran where they are to serve their unique needs and bolster their unique strengths.

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In the words of one participant,
“I don’t feel like a number within a large bureaucracy; it’s more personalized.”

LOOKING AHEAD

Veterans CARE continues to serve veterans today, and we are committed to scaling these effective and crucial services to where they are needed most. Despite COVID-19, we have been able to maintain continual support for participants and ongoing collection and analysis of the program's outcome data. At the time of this book's publication, we are planning to extend the program from a pilot into a two-year sustained service offering to improve accessibility, strengthen the model, and continue testing the model's efficacy in new contexts, including fully remote service delivery. For us, this is the power of outcomes funding: It lets us test new ways of getting results and then use those lessons to strengthen and scale effective programs.



Governor Charlie Baker is the 72nd governor of the Commonwealth of Massachusetts. Since taking office in 2015, Governor Baker helped the Massachusetts economy create more than 200,000 jobs, leading to more people working now than at any time in state history.



James Peyser is the secretary of education for the Commonwealth of Massachusetts. He directs the Executive Office of Education, which oversees early education, K-12, and higher education. Secretary Peyser is Governor Baker's top advisor on education and helps shape the Commonwealth's education reform agenda.



Rosalin Acosta is the secretary of labor and workforce development for the Commonwealth of Massachusetts. She manages the Commonwealth's workforce development and labor departments to ensure that workers, employers, and the unemployed have the tools, training, and safety resources needed to succeed in the Massachusetts economy.



Mark Attia serves as the assistant secretary for finance and performance management at the Executive Office for Administration and Finance for the Commonwealth of Massachusetts. He is responsible for structuring complex capital and project finance transactions that require significant public infrastructure investments intended to spur economic development in the Commonwealth.

3

A WHOLE NEW MENU

OUTCOMES RATE CARDS IN PRACTICE

/ DAVID WILKINSON /

“Traditional” outcomes contracts often replace fine-grain fee for service (or per client) funding with cohort-based outcome payments. They reward improvement of average results across a service population.¹ While these remain valuable tools, a new generation of Pay for Success (PFS) contracts brings client-level emphasis to outcomes contracting. These tools, including Career Impact Bonds and outcomes rate cards, open new pathways for outcomes procurement, expanding the range of government services that engage outcomes contracting and/or optimizing for different priorities.

You’ve probably guessed by now that this is a chapter about government contracting. But it is not only that. It is also about the game-changing potential of results-driven government to move the needle for families and communities in need. It is about the barriers to getting there and what it will take for government to overcome them. Most importantly, it is a case study on a type of contract that is distinctively well-suited to help us do so: the outcomes rate card.

¹ For instance, an anti-recidivism program may be rewarded for reducing reincarceration by a certain percentage across a cohort of program participants or reducing total jail bed days across its entire client group.



An outcomes rate card is a procurement tool through which government defines desired outcomes for service recipients and the amount it will pay contracted providers for each instance that a client achieves one of these outcomes. Payment triggers may involve a wide range of outcomes: an unemployed individual getting a good job, a person struggling with homelessness attaining stable housing, or an opportunity youth graduating from high school.

When I was commissioner of the Connecticut Office of Early Childhood (CT OEC), we had the chance to launch one of the nation’s earliest rate cards.² Our effort focused on home visiting programs, which serve at-risk pregnant women and mothers of young children. We chose home visiting because of the high capacity of Connecticut’s providers, as well as

² With endless thanks to the brilliant, creative, and dedicated CT OEC staff leaders who made the nation’s first early childhood rate card possible: Cathy Lenihan, Connie Heye, Ashley Murphy, Jen Wilder, and Mary Farnsworth.



their dedication and innovative spirit, characteristics for which the home visiting community is known in the national early childhood space.

It is useful—and only a slight oversimplification—to think of the rate card as a menu of posted prices government will pay for specific outcomes. One menu item in our rate card captured a great deal of attention: An early childhood agency was paying for adult workforce outcomes. It was like a sushi restaurant serving a hamburger. For a state government contract, it gained an uncommon level of recognition in national press and policy arenas.³

Parental economic stability is widely known to be one of the best predictors of child success, yet early childhood programs lack the mandate to invest in this priority. At the same time, workforce agencies have little authority or incentive to target programs to parents of young children. The outcomes rate card gave us a path to go beyond our silo, and we took it. As a result, we gained novel ability to incentivize one of the most important outcomes a child might hope for: mom getting a good job (and the stability and security that result).

This chapter explores the workforce outcome and the other items on our menu. As indicated by the investment it enabled across government silos, the rate card has great potential to help unlock important systems change—and it doesn't stop there. It is illuminating to consider the rate card in the context of the larger changes we need to see in government.

It is useful to think of the rate card as a menu of posted prices government will pay for specific outcomes. One menu item in our rate card captured a great deal of attention: an early childhood agency was paying for adult workforce outcomes.

What is required of government to become results-driven? I've had great fortune to work toward outcomes-driven solutions at the White House, at a small nonprofit, at a large state agency, and now at Yale University. Through these experiences, mostly in collecting the wisdom of others, I find it useful to frame the challenge as requiring four interdependent areas of transformation. Framed most simply, government must:⁴

1. Fund outcomes, not inputs
2. Be person- and family-centered
3. Listen to service recipients and providers
4. Use data as an asset to drive performance improvement

I have not encountered a tool better-suited than the rate card to advance each of these priorities through a single mechanism. Rate cards are especially compelling proof points that the barriers to outcomes-driven government are surmountable. Each one contributes to the precedence, staff experience, and policymaker enthusiasm that can pave the way for broader systems change.

³ Tina Rosenberg, "Issuing Bonds to Invest in People," *The New York Times*, March 6, 2018, www.nytimes.com/2018/03/06/opinion/social-projects-investing-bonds.html; Suzanne Adatto and Paul Brest, *The Pay for Success Handbook* (2020), <https://stacks.stanford.edu/file/druid:jz224zp1899/Adatto%20%26%20Brest%2C%20Pay%20for%20Success%20Handbook.pdf>; David Wilkinson and Roxane White, "Reinventing the Way We Measure Family Outcomes," *The Aspen Institute*, February 14, 2018, www.aspeninstitute.org/blog-posts/reinventing-way-measure-family-outcomes; ASTHO, *Policy Options for Promoting Early Brain Development: A Strategic Guide for State and Territorial Public Health Leaders*, accessed February 19, 2021, www.astho.org/Maternal-and-Child-Health/Early-Brain-Development/Policy-Options-for-Promoting-Early-Brain-Development-A-Strategic-Guide-for-State-and-Territorial-Public-Health-Leaders.

⁴ While there are many barriers to outcomes-driven government and many excellent ways to frame what needs to be done, this is the frame I find most useful. This synthesis incorporates ideas from Rod Bremby, Annie Donovan, Raquel Hatter, Ginny Hunt, Tom Kalil, Jeff Liebman, Anne Mosle, Tara McGuinness, Sen. Marilyn Moore, Lynn Overman, Tracy Palandjian, Jen Pahlka, Sonal Shah, Jim Shelton, Megan Smith, and Kathy Stack.

A CASE STUDY: RATE CARDS AS A TOOL TO HELP BUILD BETTER GOVERNMENT

1. Fund outcomes, not inputs

The purpose of publicly funded government programs is to achieve better outcomes for the people being served. Yet government tends to fund and assess programs based on metrics inadequately suited to this goal. Government contracts (the primary implementation vehicle for a wide array of public services) commonly allocate dollars based on throughput (e.g., numbers served or fee for service), rather than results achieved. For instance, in workforce training, government tends to pay for the number of people who receive training rather than the number of trainees who attain jobs.

This approach has the unintended effect of shifting government and service provider attention away from what matters most: results. It obscures both policymaker and public understanding of program impact—the degree to which hard-won policies to address critical objectives, such as improving health or alleviating poverty, achieve their goals. It also sharply reduces government’s capacity to know what works and thereby intelligently target limited resources to best use. It compromises the ability of advocates to justify expansion of (or preserve funding for) high-impact programs. The inevitable result of our relative inattention to results is that government delivers fewer high-impact



Government contracts commonly allocate dollars based on throughput (e.g., numbers served or fee for service), rather than results achieved.

programs and services, taxpayer funds are not optimized, and service recipients face steeper odds in overcoming the challenges they face.

Similar to other PFS contracting models, rate cards quickly shift the focus of government contract administrators and service providers to desired results for families and communities served. In a rate card contract, government sets priority outcomes, the prices it is willing to pay for those outcomes, and the measurement tools it will use to determine whether the outcomes have been achieved. Distinctively, through rate cards, multiple service providers can enter contracts for the same outcomes according to the same terms.

Highly effective providers demonstrate their impact and may earn increasingly large engagements. Lower performers must confront their shortcomings. They have a clear financial incentive to improve their results. Those unable to do so make way for those who can. Taxpayer funds achieve increasing value on the dollar through improved collective performance.

For any program, identifying and quantifying the desired outcomes is important. When we pivot to paying based on the achievement of outcomes, these choices become even more critical. In Connecticut, we started by developing the principles that we felt needed to be true across all outcomes. We decided outcomes listed in the rate card should generate value to families and society, link to administrative data, and support two-generation impacts (including those that reach across typical government silos). Finally, we wanted the selection of outcomes to be informed by providers as well as service recipients.

For reasons I will discuss in greater detail, the rate card was structured to provide bonus payments to providers as



In designing any outcomes contract, a payor must be cautious not to create perverse incentives to serve lower-need families who may require fewer services and be more likely to achieve the desired outcomes.

opposed to creating contingencies for their core funding. To determine the amount of each bonus payment in the rate card, we started with the total amount of funding available for these payments and then modeled the expected number of times each outcome would be achieved. From there, we were able to set a price. Given our available pool of funding, we capped each provider's bonus payments at 3% of its total contract value.⁵

In designing any outcomes contract, a payor must be cautious not to create perverse incentives to serve lower-need families who may require fewer services and be more likely to achieve the desired outcomes. We mitigated this risk by offering higher bonus payments for outcomes achieved by higher-need families. The accompanying table reflects the 2018 rate card available to providers.⁶

⁵ Bonus payments can often accomplish most of what one might hope to achieve with larger contingent payments while avoiding some of the downside. In many ways, the best outcome payment amount is whatever level of funding is feasible and sparks an outcomes orientation in providers. There is some level so low that it won't motivate effort. We were unsure if 3% would be enough. We found that, because agencies are so tightly budgeted, the prospect of earning 3% of total funding that could be flexibly spent was a sufficient incentive. The Hartford Foundation for Public Giving generously provided a grant enabling our first rate card to supplement federal funds and reach this meaningful level. (An attribute of the rate card and other PFS contracts is that they can accommodate multiple payors, including those in the private sector.)

⁶ The program involved providers using the following models: Parents as Teachers, Nurse-Family Partnership, Early Head Start, or Child First. We wanted to involve real-world circumstances like multiple providers to better test the rate card. In the case of Child First, which serves the highest-risk families with compound challenges, system involvement, and very low rates of prenatal enrollment, we set a distinctive outcome focused on family stability. The Child First rate card makes an outcome payment if a significant need is met in child care (attaining care), health care (for instance, getting treatment in depression), or housing (transition to stable housing from homelessness).

Connecticut's First Home Visiting Outcomes Rate Card (2018)

Metric	Definition	Low-risk family bonus payment	High-risk family bonus payment
Safe children	At the time of measurement, there are no substantiated cases of maltreatment (other than any reported by provider staff) and no incidents of injury- or ingestion-related visits to the emergency room.	\$90	\$115
Caregiver education and employment	At the time of measurement, the caregiver is employed, enrolled in education or training, or has recently graduated from an education or training program.	\$180	\$225
Full-term birth	For families enrolled prenatally before 28 weeks' gestation, the child is born at 37 weeks' gestation or later.	\$135	\$170

2. Be person- and family-centered

Individuals and families can have complex needs that often cause them to interact with multiple government and social service agencies. Government programs, by contrast, are typically designed to address particular challenges an individual may face (lack of access to food, lack of employment, need for child care, lack of housing, desire to avoid reincarceration) but often fail to consider how these elements interact in a person's life—much less across a family unit.

Picture a typical client of a government service—a single mom seeking to better support her family through the promise of a workforce training program. If she faces common challenges such as unreliable child care, depression, or unstable housing, a training program alone is unlikely to help her secure and maintain a job. While clients of government services typically face multiple barriers, government offers fragmented, misaligned services that are hard to navigate. The effective result is that government often offers part of a solution but nearly impossible odds of success. Over time,

hope for a better life can erode, leaving behind frustration and self-doubt.

We can examine home visiting programs through the same lens. Home visiting is designed to improve parenting skills, cultivate strong child-parent attachment, and advance a child’s social, emotional, and intellectual development. Yet a mom is less likely to find the emotional reserves and time to execute the best parenting practices if she has unstable employment, is working multiple jobs to make ends meet, or has low prospects for career advancement due to limited education and skills. The same can be said if she is homeless, faces mental health challenges, or experiences domestic violence.

National experience shows that coordinated agency action can align existing resources to help families overcome common barriers to success. When agencies focus collaboratively on an outcome for an individual rather than delivering isolated services, they are able to identify likely barriers and offer a service array that can help a person overcome them. As a result, government resources can be spent more efficiently, achieving more value on the dollar while helping families escape the cycle of poverty and subsidy.

Robust interagency programs that coordinate to deliver such person-centered or family-centered care are



When agencies focus collaboratively on an outcome for an individual rather than delivering isolated services, they are able to identify likely barriers and offer a service array that can help a person overcome them.

exceedingly rare. Many structural barriers exist within each agency and program that inhibit coordination. Routine cross-silo collaboration would require overhauling embedded structures, an enormous undertaking. Agencies and policymakers need proof points that exhibit the promise and impact of outcomes-focused collaboration before upending large systems. Unfortunately, these same embedded structures make it very challenging to pilot or test collaborative approaches.

In Connecticut, the rate card has proved to be an effective tool to work around common barriers to cross-silo action. The rate card enables government to name multiple, separate outcomes that may fall beyond one agency’s typical domain and may have material value to other agencies. This allows for two possibilities:

- The rate card can enable agencies to reach beyond their typical area of funding. CT OEC does not have the authority, for instance, to fund the service of workforce training itself, but federal regulators enthusiastically agreed it was appropriate to pay for the outcome of parental job attainment as a vehicle to support child success given the robust evidence supporting the link.⁷ This has been the path CT OEC has taken so far—using the rate card to reach past former boundaries to other key metrics important for children.
- The rate card can serve as a vehicle that allows agencies to address the “wrong pockets problem.” A rate card can enable multiple agencies to collaborate in a discreet and affordable way to support preventive interventions that advance their downstream goals.

⁷ I remain grateful for the fast and supportive approval from the Maternal and Child Health Bureau of the Health Resources and Services Administration (HRSA), and to David Willis, then director of the Division of Home Visiting and Early Childhood Services, whose vision and support for PFS applications in the home visiting space created the conditions for federal approval.

One or more agencies can participate in a rate card contract by contributing to the specific outcome payment that falls within their domain. For instance, a housing agency may pay for the outcome of career advancement when it raises income to the level where housing subsidy is no longer required. This could also cross levels of government. A city substance abuse treatment program for parents that reduces child welfare system involvement may attract outcome payments from its state child welfare agency.

It is often claimed that preventive programs cover their own costs by avoiding more expensive system hits later. In Connecticut’s case, while home visiting programs have many critical measures of success, the outcome measures that we defined as most important represent cost savings outside of our agency. Savings from avoidance of preterm birth and emergency room visits (two outcomes measures in our rate card) typically accrue to Medicaid. Savings from reduction in developmental disorders accrue to the education system in the form of reduced utilization of special education. And benefits from workforce outcomes accrue in the form of both reduced dependence on welfare



It stands to reason that savings generated across systems may collectively allow well-run prevention programs to “pay for themselves” in whole or in part. In our rate card, each successful outcome represents a family that did not experience a crisis triggering use of more expensive services.

systems and increased tax revenue collected from resulting higher incomes. It stands to reason that savings generated across systems may collectively allow well-run prevention programs to “pay for themselves” in whole or in part.⁸ In our rate card, each successful outcome represents a family that did not experience a crisis that would have triggered use of more expensive services. While not indicating causation that could prove savings, rate cards help set the stage to do so, forging the cross-silo data connections necessary for rigorous evaluation.

3. Listen to service recipients and providers

The individuals who interact most closely with services—beneficiaries and providers—have the most nuanced and current appreciation of what is working and what is not. Unfortunately, they rarely have a seat at the table when government officials set the standards by which programs are run. Even when public hearings or surveys are conducted, many participants feel their voices are not heard. One provider told us, “It’s like shouting into the ocean.” Effective feedback loops require genuinely listening, acting on what is heard, and reporting back on how feedback is being implemented. Government programs and policies can often make this difficult due to long time horizons and lack of flexibility in ongoing contracts.

Another common challenge in government contracting is the strained relationship between state contract overseers and providers doing the work on the ground. Providers often come to resent government overseers who seem to be focused on metrics that feel disconnected from the problems their clients face. Government contract officials, for their part, can come to mistrust service provider reporting. Done right, a rate card aligns incentives in a way

⁸ Use of administrative data to better observe patterns and match services to those most in need can increase the chances that preventive programs generate savings.

that melts away these historic tensions. By refocusing on results and encouraging collaboration, government funders can support service providers in problem-solving and achieving the desired outcomes.

In Connecticut, while the rate card created promising opportunities for providers, it also caused them to confront new logistical complexities. This required thoughtful collaboration sensitive to the fact that providers are strained and underfunded. We engaged providers through surveys, workshops, and ad hoc communication throughout the rate card development process to reduce administrative burden on providers, earn provider buy-in, and provide clear guidance.

No longer confined to typical fee for service and process payments, we also had the opportunity to ask parents about what outcomes they wanted for themselves. Young mothers told us they most hoped for greater financial stability to allow them to better care for their children. The rate card freed us to act on this aspiration—to show we were listening by investing in their own goals for their families.

To our delight, providers were enthusiastic about this outcome. While home visitors do not provide workforce training, they had seen the stabilizing effect of their services help enable economic success. Like so many social service providers, they were already going beyond their compensable services to meet mothers' needs in a variety of ways, such as helping them find a training program, an apprenticeship, or a child care provider during class times. With the rate card, providers' long unrecognized extra efforts would finally be valued.

In the first meeting announcing the rate card, nerves were high that the outcomes contracts would endanger provider business models. Anticipating that concern, we structured

the first rate card purely as upside bonus payments to encourage a focus on outcomes while not introducing downside risk to providers. Providers' willingness to contribute time and energy to test an unproven model was essential for developing a smart program—a priority that would have been undermined with a punitive component. In later iterations, we did offer providers the option to become eligible for higher bonus payments if they accepted a small degree of downside risk for underperformance in key areas. We first offered this option to 14 providers and, to our surprise, nine accepted the contingent risk model. As opposed to inflexible mandates, CT OEC's deferential and consultative approach created a trusting partnership that has helped the program be a success and a point of pride for providers that have won recognition as innovators in the national home visiting community.

4. Use data as an asset to drive performance improvement

Successful companies invest billions in data analytics to continually improve their products and services, better meeting the needs of customers. Government, by comparison, expends significant funds collecting extensive data yet too rarely puts it to good use. There is tremendous untapped potential to utilize existing government administrative data to evaluate impact, improve performance, and drive efficiencies. Advances in economics and data science can provide critical new insights on key challenges—and tell us more about how to respond to them. Cross-system integrated data can be applied in game-changing ways. Among other things, it can dramatically reduce the cost of rigorous evaluations, enable predictive analytics to more smartly target limited resources, and allow for real-time analysis to react quickly to changing trends.



The development of a rate card in and of itself can help agencies become better versed in the measurable impact of their services and more comfortable using data in an ongoing way.

Examples abound of how data integration can provide vastly improved understanding of program outcomes. An anti-recidivism intervention may use corrections department data to determine if it has reduced recidivism. Programs seeking to support opportunity youth may use education and juvenile justice data to determine if they are increasing graduation and reducing system involvement. A housing intervention may use shelter system data to determine if it has reduced homelessness.

Rate cards are an excellent tool to kick-start more sophisticated data use. The development of a rate card in and of itself can help agencies become better versed in the measurable impact of their services and more comfortable using data in an ongoing way. Administrative data is an excellent resource for establishing baseline performance on outcomes metrics. Where consistently available, administrative data is typically the most accurate and reliable source for affirming achievement of contracted outcomes. In an outcomes contract, a simple pull of the relevant administrative data set can allow the release of outcomes payments.

In our case, for instance, preterm birth and emergency room records are available in Medicaid claims data. Child maltreatment records are collected by the state Department

of Children and Families. The state's Homelessness Management Information System maintains real-time records that indicate when a family no longer appears in its systems and, therefore, is housed. A mother's job attainment and retention can be affirmed through both the state Department of Labor's new hires data and its unemployment insurance program.⁹

LESSONS LEARNED

The rate card is a new tool with great promise both for individual agency programs and for contributing to broader goals of government transformation. When undertaken with great care and planning, I believe that agencies will find developing a rate card to be well worth the effort. I recommend the following to other jurisdictions considering adopting rate cards:

- **Consider selecting important outcomes, even if they fall outside the direct purview of a given agency.** For CT OEC, including the workforce outcome was the right thing to do for young children. It was also a way to advance our cross-silo, two-generation objectives. Investing in outcomes that are priorities for other state agencies is a way to model the sort of cross-silo, outcomes-focused action that often best serves families and individuals. In our case, tying home visiting to important statewide priorities in health, child welfare, and employment was also a compelling way to showcase the impact and value proposition of home visiting. In budget seasons, legislators are accustomed and even inured to anecdotes of impact and theoretical arguments that prevention programs

⁹ This has the added benefit of avoiding reliance on more costly alternatives including provider self-reporting (which can be a burden on providers) and government auditing or third-party monitoring. CT OEC has not yet won sufficient access to automate payment based on administrative data in this way, but its rate cards will enable it to do so when circumstances allow.

drive savings. Programs that can point to downstream impact affirmed in contracts, especially when verified by state data, provide dollars-and-cents connection to value and savings.

- **Build a culture of trust and engagement by making feedback a permanent aspect of your rate cards across funding cycles.** My successors at the CT OEC, now under the leadership of Commissioner Beth Bye, sponsored 10 community listening sessions throughout Connecticut to gather feedback. This informed the request for proposal and rate card design in 2020. As with earlier iterations, providers shared their views through surveys, workshops, and ad hoc communication throughout the development process to help ensure the rate card did not place undue administrative burden on providers, that provider buy-in was achieved, and that guidance was clear. In addition, because of their personal connection to service recipients, providers are often best positioned to appreciate nuanced opinions of clients; they should be activated to do so continually and encouraged to represent recipient priorities.
- **Maximize the power of incentives by providing payments quickly following the achievement of results.** Behavioral economics research indicates that “Money received right away is perceived as different in value than money to be received in the future, even the near future.”¹⁰ This research suggests that, in an ideal world, there should be minimal lag time between the achievement of an outcome and the receipt of the financial incentive. While it is necessary to balance this ideal with the administrative burden of more frequent payments, CT OEC rate card’s quarterly payments have been well-received by providers.

- **Select outcomes that can be measured through existing government data.** From the beginning, we decided a key criterion for selection of outcomes metrics was whether each outcome was reflected in administrative data. We made this decision to maximize consistency and reliability in establishing baselines as well as enable opportunities to pull data to trigger outcomes payments quickly and confidently. We also believed this design choice would catalyze cross-agency data sharing. We found that, by paying for outcomes that were priorities for other agencies, we were able to overcome the typical reluctance to share data that often plagues outcomes-based contracting and evaluation efforts across the country.
- **Reduce the provider reporting burden.** Contracted providers of services spend as much as 10% of their time on overlapping and redundant reporting to government funders. Much of this is unrelated to outcomes, has little or no policy use, and emphasizes measures that distract from more important priorities. Providers have limited capacity. As government asks them to take on new and challenging outcomes-focused obligations, it should similarly seek to reduce the reporting burden on less important measures. In Connecticut, providers conveyed enthusiasm regarding the new outcomes emphasis but expressed concern about taking on even more reporting. We discovered that providers were spending a great deal of time reporting similar metrics across two systems. The rate card called into focus this longstanding source of provider frustration. We decided to eliminate one of the two systems, cutting provider reporting obligations substantially. As a result, more state dollars go to service delivery¹¹ and less to time-consuming and duplicative data-entry—increasing the odds that outcomes will be achieved.

¹⁰ Ateev Mehrotra, Melony E. S. Sorbero, and Cheryl L. Damberg, “Using the Lessons of Behavioral Economics to Design More Effective Pay-for-Performance Programs,” *American Journal of Managed Care* 16, no. 7 (July 2010): 497–503.

¹¹ These savings constitute provider time worth nearly \$1 million annually.

- **Appreciate the power that lies even in small payments contingent upon outcomes.** There can be a tendency to assume that outcomes-based funding is all or nothing. We found that provider behavior changed even with bonus payments that amounted to a maximum of 3% of the total contract size. Even a small pool of capital is sufficient to make a difference in outcomes if allocated strategically.
- **State and local governments should get help. The federal government should provide it.** The work of setting up an agency's initial rate card will be faster and more likely to succeed with outside technical assistance (TA). CT OEC launched its first rate cards thanks to expert assistance from Social Finance, funded by a grant from the federal Social Innovation Fund (SIF). By 2018, funding was eliminated for both SIF itself and the grant program. The federal government invests substantially in various forms of TA but too rarely in the sort that assists recipients in executing the data-intensive and technical work necessary to assess impact or develop results-driven programs.¹² Outcomes-focused TA programs present some of the greatest opportunities to generate value for the public dollar and should be established, reinstated, and/or expanded by the federal government.

In the short time since the first home visiting rate card was implemented in Connecticut, the tool has exceeded expectations. Five subsequent home visiting rate cards have been issued since 2018, each improving on the last in small ways—or responding to new circumstances communities face—with modest adjustments to outcomes, payment amounts, and levels of contingency. At the time

¹² This approach to TA is referred to as Outcomes-Focused Technical Assistance; more detail can be found at the following site: David Wilkinson, "Outcomes-Focused Technical Assistance: Enabling Greater Impact through Data and Evidence," National Archives and Records Administration, December 15, 2016, <https://obamawhitehouse.archives.gov/blog/2016/12/15/outcomes-focused-technical-assistance-enabling-greater-impact-through-data-and>.



At the time of publication, all of CT OEC's contracts with home visiting providers (approximately 40 contracts worth over \$20 million annually) now include a rate card.

These contracts serve approximately 2,600 families.

of publication, all of CT OEC's contracts with home visiting providers (approximately 40 contracts worth over \$20 million annually) now include a rate card. These contracts serve approximately 2,600 families.

Thanks to experience developing the home visiting rate cards, as commissioner, I decided to launch a second rate card on family homelessness diversion. Recognizing the instability and trauma the experience of homelessness has on young children and taking a new step toward cross-silo engagement, we co-launched this rate card with the state housing agency and the statewide homelessness response network. The rate card makes a payment for each family that is successfully diverted from the homeless system and remains out of the homeless system for a year.¹³ More broadly, the state is examining what opportunities exist to extend rate cards to other programs as well.

Through all of these experiences, we have seen rate cards succeed at advancing the key elements of results-driven policy. Even as we celebrate this progress, we recognize

¹³ Based on the feedback of providers, this model combined rate card payments with traditional PFS payments based on percentage improvement across population served. We found the rate card model integrates well with other PFS approaches to effectively address various outcome priorities. With thanks to Lisa Tepper Bates, Kyle Pilon, Kate Parr at the University of Connecticut School of Social Work, and those at the state Department of Health, who each played essential roles in catalyzing this groundbreaking initiative. And with special thanks to current CT OEC Commissioner Beth Bye who has improved and expanded each of these initiatives among many others during her leadership.

that creating an outcomes-driven government that routinely collaborates across silos, listens to clients and providers, and uses data as an asset is a tremendous undertaking that may take a generation to accomplish. Rate cards alone will not create the government transformation we need. But they can provide valuable evidence to showcase why it is worth undertaking the much harder work of systems transformation.

Proof points like rate cards provide real-world examples that help abstract concepts come to life. They create precedents that pave the way for larger future efforts.¹⁴ They build experience with key concepts and techniques across government and providers alike. Such proof points also feed the faith that larger transformation is possible.

So, create a menu—and put something surprising on it.



David Wilkinson is the founding executive director of the Tobin Center for Economic Policy at Yale University. Wilkinson was formerly director of the White House Office of

Social Innovation and Civic Participation, Connecticut's chief performance officer, and commissioner of Connecticut's Office of Early Childhood.

¹⁴ As more provider contracts are based on outcomes reflected in data, the mainline mechanism of government decision-making (the accounting, reporting, and budgeting processes) could become increasingly connected to real-world results. Government administrators and legislators will be better armed with the information they need to assess what public investments are buying, what harms preventive programs are avoiding, and the savings or value associated therewith. Ideally, exposed to these outcomes-driven models, legislators and administrators will begin to seek and call for similar approaches in other program types. Thus, a few proof points may help create the conditions that allow for greater transformation.



4

A GOOD JOB AT THE END OF TRAINING

RHODE ISLAND'S OUTCOMES-FOCUSED APPROACH TO WORKFORCE DEVELOPMENT

**/ PROFESSOR JEFFREY LIEBMAN +
U.S. SECRETARY OF COMMERCE AND
FORMER GOVERNOR GINA RAIMONDO¹**

Americans acquire skills to succeed in the labor market from a wide range of sources. Educational institutions, including our K-12 schools, community colleges, four-year colleges, and universities, play an important part. So do businesses that provide on-the-job training and private sector training programs such as union apprenticeships, trade schools, and technology credentialing programs. Within this broad skill-acquisition ecosystem, public sector employment and training programs play a critical role, particularly for dislocated workers, English

¹ The authors are grateful to Sarah Allin, Danielle Cerny, Kevin Gallagher, Scott Jensen, Scott Kleiman, and many other members of their teams who developed the initiatives and ideas discussed in this chapter.

language learners, recipients of public assistance, workers in need of vocational rehabilitation services, justice-involved individuals, workers in recovery, and youth who are entering the job market for the first time.

At their best, public sector workforce programs transform lives, while providing local businesses with the talent they need to expand. But too often these programs fall short. Programs fail to engage many of the people who need them the most. Services are often insufficient to help program participants overcome underlying barriers to employment, including mental health issues, substance use, lack of child care, or unstable housing. Program completion rates can be low. And those who complete training programs may find that there is no job available on the other end. The way government agencies have traditionally managed workforce programs—with too much focus on compliance and too little focus on performance—is a major contributor to these shortfalls.

Over the past six years, the state of Rhode Island has made fundamental changes to its workforce programs with the aim of helping all Rhode Islanders, especially the 67% without a bachelor's degree, earn a good wage. This chapter describes the thinking behind Rhode Island's changes and presents case studies of two key initiatives: Real Jobs Rhode Island



Over the past six years, the state of Rhode Island has made fundamental changes to its workforce programs with the aim of helping all Rhode Islanders, especially the 67% without a bachelor's degree, earn a good wage.

and Rhode Island TANF (Temporary Assistance to Needy Families) Work Supports.

RHODE ISLAND'S APPROACH TO WORKFORCE DEVELOPMENT

There are three fundamental problems with the traditional approach to managing public sector workforce programs, problems we call “train and pray,” “fund and done,” and “compliance over performance.” Rhode Island has been working to overcome each of these problems by focusing on the outcomes it is trying to achieve: good wages for workers and a steady supply of talent for businesses.

Replacing “train and pray” with employer-focused partnerships

State agencies and local workforce boards have too often followed a “train and pray” model in which training programs are designed without sufficient input from employers or anticipation of changing labor market needs. The problem with the “train and pray” approach is that there is no guarantee that individuals who successfully complete training programs will be able to find jobs.²

Rhode Island has flipped the traditional model on its head. The new model starts by bringing employers to the table to identify the talent they need. From there, the state supports sectoral partnerships in tailor-making training programs to meet those needs. As we describe in further detail below, the state has funded more than 40 partnerships between employers and training programs. These programs are designed to provide participants with pathways to careers and businesses with a trained and talented workforce.

² Gene Sperling describes two trust gaps in conventional skills training programs: workers do not trust that training programs will provide valuable skills and employers do not trust that workers will be adequately trained. *Economic Dignity* (New York: Penguin Press, 2020), 289.



By analyzing data, talking to unemployed workers, and collaborating closely with service providers who know their customers and communities, Rhode Island now procures the right mix of services. This is a big change from simply “buying the same thing we bought last year.”

Shifting from “fund and done” to active contract management

Agencies have traditionally followed a “fund and done” model in which they consider their mission accomplished once they sign a contract with a training provider and renew contracts year after year without assessing the success of the services. The problem with this approach is that it misses opportunities to improve service delivery during the life of the contract or to reallocate funds to more successful providers. In simply renewing contracts year after year, it also fails to adapt programming when there are service needs in the community that are not being met.

Rhode Island's new outcomes-focused approach to contracting for employment and training services has three key components. First, the state is purposeful about the mix of services that it purchases. By analyzing data, talking to unemployed workers, and collaborating closely with service providers who know their customers and communities, Rhode Island now procures the right mix of services. This is a big change from simply “buying the same thing we bought last year.” Second, the state now monitors the performance of high-priority employment and training contracts in real time to assess whether they are meeting their intake, retention, and employment goals—something we call active contract

management. By spotting issues early, the state is able to collaborate with providers to improve outcomes during the life of their contracts. Third, the state is measuring the long-term employment and wage outcomes of participants so that future funding decisions can be based on prior success.

Refocusing on performance

Workforce programs, especially federally funded ones, focus too much on compliance and too little on performance. Most of the \$14 billion the federal government spends on workforce programs is administered by states. But federal restrictions can get in the way of state innovation.³ A few years ago, a community in Tennessee wanted to spend federal funding for opportunity youth on a local initiative connecting high school students to careers. But the federal government refused to permit this use, stating that the fund could be spent only on youth who were unemployed and out of school.

When Rhode Island's Department of Labor and Training (DLT) wanted to blend several federal funding streams together to create the Real Jobs Rhode Island initiative, it eventually received permission from the U.S. Department of Labor to do so, but the process and uncertainty consumed agency resources for more than a year. The countless hours that state workforce agencies dedicate to documenting eligibility for federal reimbursement would be much better spent monitoring and improving program performance.⁴

Moreover, the data needed to meet federal reporting requirements is often too delayed to allow for real-time course corrections and rarely covers a long enough period to determine the lasting impact of programs. To gauge program performance and guide policy decisions, DLT developed a new strategy for data collection and performance management that tracks success at the participant, training program, and sector level. This approach helped the state align program goals with performance metrics and allowed DLT to monitor progress, detect and address performance issues in real time, and take advantage of administrative data to track long-term employment and wage outcomes. DLT then set up dashboards that show progress for each partnership in Real Jobs Rhode Island, and DLT staff met regularly with providers to discuss the data.

In assessing the overall effectiveness of different training initiatives, the state now compares training participants' employment and earnings outcomes two years after training to earnings two years before, both to see if earnings gains persist and to avoid being misled by the temporary earnings dips that typically happen in the calendar quarters just before and after enrolling in a job training program.⁵ The state has also added a small performance-based payment



The countless hours that state workforce agencies dedicate to documenting eligibility for federal reimbursement would be much better spent monitoring and improving program performance.

³ The federal government funds 43 different employment and training programs, each with its own rules and regulations. See U.S. Government Accountability Office, *Employment and Training Programs: Department of Labor Should Assess Efforts to Coordinate Services across Programs*, March 2019, www.gao.gov/assets/gao-19-200.pdf.

⁴ While the 2014 Workforce Innovation and Opportunity Act (WIOA) was a step in the right direction in that it encouraged more focus on outcomes, it is still heavily bureaucratic. Two weeks after the regulations to implement WIOA came out in August 2016, Liebman was scheduled to speak in Washington as part of a panel on government innovation. Expecting a question on WIOA, he asked a Government Performance Lab team member for a two-page summary of the implications of the new regulations. The team member came back and said the new regulations were more than 900 pages long, and it was going to take months to figure out the implications.

⁵ Orley Ashenfelter, "Estimating the Effect of Training Programs on Earnings," *The Review of Economics and Statistics* 60, no. 1 (February 1978): 47–57.

to some employment and training contracts managed by the Department of Human Services (DHS); these payments ensure regular measurement of performance, locking in a focus on outcomes both by the agency and by the provider for the period of the contract.

CASE STUDIES

Two initiatives, Real Jobs Rhode Island and Rhode Island TANF Work Supports, illustrate how the state has revitalized its approach to job training and workforce development. Both of these initiatives received technical assistance from the Harvard Kennedy School Government Performance Lab.⁶

Case Study

Real Jobs Rhode Island

In 2015, Rhode Island rolled out Real Jobs Rhode Island, a \$14 million workforce development program that provides grants to industry-led partnerships—collaborations of employers, educators, and training providers—to create innovative training programs tailored to the current and anticipated workforce needs of employers. In setting up these partnerships, the state targeted industries with strong growth potential such as biomedical innovation, data analytics, shipbuilding, advanced business services, health care, and logistics. The partnerships could train potential new hires, upskill incumbent workers, or do both.

As of November 2020, Real Jobs Rhode Island had placed nearly 4,600 new hires and upskilled more than 6,000 incumbent workers, with new hires earning an average annual wage of \$33,170.

⁶ More information about the Harvard Kennedy School Government Performance Lab's work in Rhode Island is available at <https://govlab.hks.harvard.edu/rhode-island>.

In the initial round of grants, 25 partnerships were funded. For example, the Marine Trades and Composites Partnership was formed by the Rhode Island Marine Trades Association—in conjunction with companies such as Bristol Marine and New England Boatworks and training entities such as the New England Institute of Technology and the IYRS School of Technology and Trades—to prepare workers for jobs in the marine trades and composites industry. The Health Care Training Collaborative was formed by several elder care providers—including Saint Antoine Residence, Genesis Center, and CareLink and educational institutions such as the University of Rhode Island and Rhode Island College—to tackle shortages of certified nursing assistants. The Residential Construction Workforce Partnership was assembled by the Rhode Island Builders Association in conjunction with career and technical education centers within Rhode Island high schools to align classroom curriculum with industry needs and address labor shortages.

As of November 2020, Real Jobs Rhode Island had placed nearly 4,600 new hires and upskilled more than 6,000 incumbent workers, with new hires earning an average annual wage of \$33,170. A process evaluation of the program by scholars at the University of Rhode Island found that 17 of the partnerships resulted in fundamental changes in how training was delivered, while eight “modified existing programming to better meet employer needs.”⁷

Setting up this initiative required a heroic effort by DLT Director Scott Jensen and his team to overcome barriers created by siloed federal funding streams. Most federal workforce programs have narrow eligibility requirements, such as restricting federal reimbursements to dislocated

⁷ Shanna Pearson-Merkowitz, Skye Leedahll, Aaron Ley, Bridget Hall, Kristin Sodhi, and Marissa DeOliveira, *Real Jobs Rhode Island: Case Studies and Process Evaluation* (The University of Rhode Island Social Science Institute for Research, Education and Policy, April 2018), <https://web.uri.edu/ssirep/files/RJRI-final-report-August-2018-reduced.pdf>.



By tapping into the state's existing information network, DLT was able to gather relevant data without requiring applicants to fill out time-consuming and unnecessary forms, allowing for faster placement into training programs and job pipelines.

workers or veterans. These eligibility restrictions can create barriers to program enrollment and make it challenging to design programs that simultaneously serve multiple priority groups. The state's hypothesis was that, by reducing the burden of eligibility screening, the enrollment and employment outcomes of individuals from priority groups would actually increase.

The state, therefore, needed a way to receive reimbursement from multiple federal programs and braid in state funds for workers who did not meet any of the federal requirements. Traditionally, the state had required program participants to fill out lengthy intake forms and provide extensive documentation so that it could seek federal reimbursement. This approach imposed significant burdens on prospective trainees, training organizations, and employers—burdens that discouraged participation. In setting up Real Jobs Rhode Island, DLT decided to reduce the intake form to the bare minimum necessary for the state to administer the program, eliminating 66 questions and reducing the number of pages from three to one. The state then supplemented the information in the abridged form with data it already had access to, such as a person's wage, unemployment history, and engagement with other state supports. By tapping into the state's existing information network, DLT was able to gather relevant data

without requiring applicants to fill out time-consuming and unnecessary forms, allowing for faster placement into training programs and job pipelines.

As part of its increased emphasis on performance, DLT built the capacity to actively manage Real Jobs Rhode Island contracts in real time.⁸ It created a dashboard for high-priority partnerships, tracking enrollment, progress within the training program, program completion, and subsequent employment placements against targets set at the beginning of the grant. These dashboards are reviewed quarterly both internally by DLT and in meetings between DLT staff and partnership leaders. Both the data reporting and participation in regular performance meetings are specified upfront as requirements for grant receipt. This process has enabled DLT and its grantees to collaborate in troubleshooting problems—such as insufficient enrollment or failure to reach targeted demographic groups—while there is still time to fix them, thereby contributing to improved service delivery and better job placements for participants. Finally, DLT didn't view program completion, or even initial job placement, as the final measure of Real Jobs Rhode Island's success. Instead, the goal of the program was to meet employer demand and connect individuals to well-paying jobs with career pathways. DLT therefore set up a process for using the state's quarterly unemployment insurance data to track the long-term improvements in participants' employment status and wages, comparing changes from two years prior to enrollment to two years after program completion. This long-term view allows the state to assess whether participants are receiving the targeted training they need to improve their career trajectories.

⁸ More information about active contract management is available through the Government Performance Lab's website at <https://govlab.hks.harvard.edu/active-contract-management>.

Case Study:

Rhode Island TANF Work Supports

Rhode Island Works (RIW) provides cash assistance and job search services as part of the state’s TANF program. Before 2015, RIW consistently underperformed in long-term self-sufficiency outcomes of clients—few individuals achieved high quality jobs or sustained employment for more than one year.

Poor performance was driven by a mismatch between RIW’s service array and client needs. The RIW service array focused on educational and training resources, but the population it served faced significant barriers to utilizing those services, including challenges with housing, behavioral health, and intimate partner violence.

To support low-income families in achieving greater economic self-sufficiency, DHS decided to redesign and reprocur RIW’s \$7 million array of services to offer a wider mix of individualized supports that addressed clients’ underlying barriers to employment. When the initial procurement resulted in submissions of business-as-usual bids, DHS canceled the RFP and embarked on an extensive campaign to engage and educate community providers about the state’s desire for new solutions.



To support low-income families in achieving greater economic self-sufficiency, DHS decided to redesign and reprocur RIW’s \$7 million array of services to offer a wider mix of individualized supports that addressed clients’ underlying barriers to employment.

A second RFP produced several innovative proposals and resulted in the addition of a new set of supportive services focused on mitigating non-employment barriers, including services for behavioral health, substance use treatment, housing stabilization, and domestic violence support. The procurement also consolidated the number of contractors, decreasing the need for clients to switch providers to access additional resources and leading to more consistent case management experiences. As Figure 1 illustrates, this combination of changes enabled DHS to offer clients individualized service plans that more logically progress to meet needs: first removing barriers and stabilizing families, then increasing client education levels and skills, and finally moving clients into sustainable employment to help families move off benefits.

FIGURE 1
New TANF service array reflected in RFP

Supportive Services	Teen + Family Development	Vocational Training	Work Readiness
Behavioral health services	Services for pregnant teens + teen parents	Short-term industry-specific training	Job readiness activities
Substance use services	Services for youth needing to acquire a high school diploma or GED	Credential + certificate programming	Job search supports
Housing stabilization			Work experience + community service activities
Intimate partner violence support			Transitional jobs and on-the-job training

As part of the new contracts, DHS incorporated performance-based bonus payments to focus provider attention on a prioritized set of client outcomes. Each provider has at least two performance payments enumerated in its contract: one payment specific to each service component category and

one payment linked to client earnings that applies to all providers.

The category-specific payments were linked to client results that, if achieved, would position that client to progress to the next set of supports necessary for employment:

- Supportive service providers earn a bonus payment of up to \$25 per month when a client maintains a minimum level of participation.
- Teen and family development providers earn a \$500 bonus payment when a youth client achieves a high school diploma.
- Vocational training providers earn a \$500 bonus payment when a client completes a training program.
- Work readiness providers earn a bonus payment of \$500 when a client is employed six months after starting services. This bonus payment is \$750 for clients who have been receiving RIW benefits the longest.

To incentivize vendor collaboration for clients' overall success in reaching unsubsidized employment, vendors earn a \$1,000 bonus payment for any client with wages of \$4,000 or more in the fifth quarter after program enrollment.

The composition of these performance-based payments reinforces the sequencing of services for clients while simultaneously creating a feedback loop for providers and DHS to regularly review long-term outcomes and monitor program success. Previously, providers had little information about client employment outcomes after services were completed, making it difficult to understand how programming might be improved. DHS has also implemented active contract management strategies across RIW services—monthly face-to-face meetings with



It's time to flip the old workforce model on its head. By focusing on outcomes, states can build programs designed to get people into good jobs with strong career trajectories.

As the needs of workers and companies continue to evolve, state approaches to workforce training need to do so as well.

contracted service providers to monitor key indicators and develop strategies to improve program implementation.

CONCLUSION

A steady, well-paying job is the lifeblood of a healthy and thriving family. Public sector workforce programs play a critical role in helping individuals obtain the skills they need to succeed and in helping businesses attract the talent necessary to grow.

It should be possible to hold state workforce programs accountable for results. Unlike many other government activities that have complex and sometimes conflicting objectives, it is straightforward to specify what workforce programs are trying to achieve: increases in employment and increases in earnings. Moreover, the data necessary to assess progress against these objectives is collected automatically as part of state unemployment insurance systems. Yet too many programs continue to “train and pray” and focus on compliance rather than performance.

It's time to flip the old workforce model on its head. By focusing on outcomes, states can build programs designed to get people into good jobs with strong career trajectories.

By establishing collaborative, data-driven meetings with providers, states can drive continuous improvements during the life of these critical contracts. And by leveraging existing data to track long-term outcomes, states can compare performance across providers to inform future funding decisions. The Rhode Island experience has demonstrated that all of these steps are feasible. As the needs of workers and companies continue to evolve, state approaches to workforce training need to do so as well.



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Gina M. Raimondo is the 40th U.S secretary of commerce. Secretary Raimondo most recently served as governor of Rhode Island from 2015-2021 and was its first woman governor. As governor, she brought unemployment down to its lowest rate since 1989 and helped spur a record number of new businesses in Rhode Island year after year.



Outcomes funds drastically reduce the time and cost it takes to put together outcomes-based contracts.


5

OUTCOMES FUNDS FOR ECONOMIC MOBILITY

/ SIR RONALD COHEN /

When it comes to tackling the urgent problems we face today, there is no time—or money—to waste.

Governments have a leading role to play in the emerging Impact Revolution. They have tremendous power to drive change and steer progress. That is why it is so important that governments shift their focus from inputs to outcomes. In this era of accelerating public sector sophistication, outcomes funding strategies will help to identify effective interventions and bring them to scale. These—including Social Impact Bonds and other Pay for

Success strategies—allow policymakers to pay only for what works, to the extent that it works. Instead of buying services and hoping they will be successful, governments pay for measured results.

Complex social issues, though, often don't fit neatly into one agency's purview. Consider a workforce program for veterans with post-traumatic stress disorder. It could help achieve the goals of one agency (say, a county's behavioral health department), while also contributing toward another's policy objectives (say, a state's economic development agency). Looked at through just one agency's lens, perhaps the program isn't worth it; but looked at holistically, it may be a blockbuster.

Each individual project can bring together multiple partners to contribute outcomes funding. As my colleague Nirav Shah relates in "Investing in America's Workforce," the veterans-focused project I describe above was launched by drawing together commitments from the U.S. Department of Veterans Affairs, the commonwealth of Massachusetts, and the cities of Boston and New York.¹

¹ Nirav Shah, "Improving Workforce Outcomes with Pay for Success," in *Investing in America's Workforce: Improving Outcomes for Workers and Employers*, ed. Stuart Andreason, Todd Greene, Heath Prince, and Carl E. Van Horn (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2018), 63–74, www.investinwork.org/-/media/68AAA0BA542445508B3CAE88EAF233D.ashx.

But weaving that customized tapestry took four years. Overcoming institutional silos one at a time is hugely time-intensive, and hugely challenging.

SOLVING THE WRONG POCKETS PROBLEM

Outcomes funds drastically reduce the time and cost it takes to put together outcomes-based contracts. They set up the infrastructure for cooperative, cross-agency funding, in advance of a specific project, by aggregating a pool of capital. Then they actively develop new projects focused on a set of priority outcomes.

The state of California's small but successful outcomes fund serves as a useful case study. It intended to solve a typical challenge of government funding. Efforts to reduce recidivism face "vertical" wrong pockets problems: benefits of reducing reoffending accrue to both counties (via the jail system) and states (via prisons), limiting the incentive for either to fund prevention on its own—even if, taken as a whole, that prevention would pay off for taxpayers. California, under the [Board of State and Community Corrections](#)' Pay for Success grant program²—used a state-county collaboration to overcome that issue. With just \$5 million in state match, California's outcomes fund launched three county-level projects, with up to \$15.7 million on the line.

This kind of one-off effort in California, though, doesn't do justice to the idea's potential. Outcomes funds can centralize expertise in building outcomes-based funding strategies within government. This should not be underrated. Centers of excellence lead to more effective and efficient contracting, smarter project designs, and better collaborations. (Just look at the Executive Office for

² Assembly Bill (AB) 1837 (Atkins), Chapter 802, Statutes of 2014.

Administration and Finance in Massachusetts, which has become the national leader in these contracts.) Rather than building artisanal projects, administrators of an outcomes fund can proactively create lasting, mutually reinforcing partnerships—and continue to learn about the most cost-efficient mechanisms for achieving their target outcomes.

Jurisdictions around the globe have begun to cultivate pools of funding earmarked for outcomes contracts that cut across agencies and levels of government.³ In the U.S., Congress recently passed the first federal-level outcomes fund: the Social Impact Partnerships to Pay for Results Act (SIPRA). Legislators enacted this bill as part of the Bipartisan Budget Act of 2018, allocating \$100 million to account for the federal portion of state and local Pay for Success initiatives.

USING OUTCOMES FUNDS TO ACCELERATE ECONOMIC MOBILITY

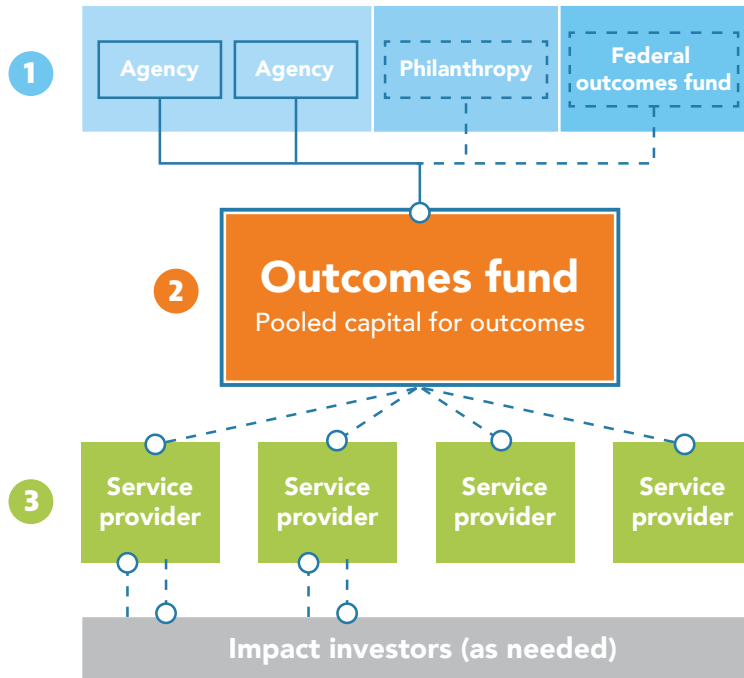
There is a remarkable opportunity here. As the federal government begins aggregating outcomes funds across its agencies,⁴ U.S. states could do the same—creating

³ The U.K. is home to four outcomes funds: the Innovation Fund (£30 million) for youth workforce development, the Fair Chance Fund (£10 million) for displaced youth, the Commissioning Better Outcomes Fund (£40 million), and the Life Chances Fund (£80 million) focused on upstream interventions outside the purview of a single jurisdiction. Donor agencies and others are increasingly developing outcomes funds, such as the two \$1 billion Education Outcomes Funds, one for Africa and the Middle East, and the other for India, catalyzed by the Global Steering Group for Impact Investment, which aim to bring systemic improvement to educational attainment levels. Globally, at least five other outcomes funds are in development.

⁴ Agencies have pursued various ad hoc efforts in this space in advance of SIPRA. For example, in 2013, the Department of Labor—using \$24 million in matching grants through the Workforce Innovation Fund—spurred large, cross-sectoral projects in Massachusetts and New York focused on the intersection between criminal justice and workforce development. In 2016, the Department of Veterans Affairs awarded \$3 million for matching outcomes payments, challenging state and local governments to produce better workforce outcomes for veterans. This resulted in a three-site project launched in 2018. Also in 2016, the Departments of Housing and Urban Development and Justice partnered to support \$8.7 million in grants focused on the intersection between homelessness and criminal justice, spurring a half-dozen new efforts nationwide. Other initiatives have sprung from the Corporation for National and Community Services' Social Innovation Fund; the Department of Education's Office of Career, Technical, and Adult Education; USAID; and the Department of Justice's Second Chance Act Pay for Success Initiative.

/ **FIGURE 1** /

Outcomes funds allow jurisdictions to achieve better outcomes by centralizing knowledge and strategy around outcomes contracting



- 1 AGGREGATE CAPITAL**
Funding agencies (sometimes in partnership with philanthropy) come together to **jointly contribute to an outcomes fund**. In some instances, federal outcomes funds may match.
- 2 CENTRALIZE EXPERTISE**
The fund develops **outcomes-based contracts** to achieve key policy goals under a common framework.
- 3 CONTRACT FOR OUTCOMES**
As needed, service providers may draw on impact investors for the **upfront capital needed** to provide services to the target population; investors are repaid if outcomes are achieved.

their own state-level economic mobility outcomes funds as illustrated in Figure 1.

These funds would give states an advantage in securing federal awards by developing outcomes-contracting expertise and creating a pipeline of promising opportunities. More importantly, they would enable states to build the muscle around outcomes contracting, at a time in which making the most of public money has never been more essential. By aggregating money from across agencies, state economic mobility outcomes funds would solve “horizontal” wrong pockets problems, finding opportunities that might otherwise fall through the cracks between agencies. In some instances, we expect economic mobility funds would also attract the notice of the philanthropic and corporate communities, further bolstering their potential for impact.

Funds themselves would identify a set of priority target populations—for example, transition-aged youth living on the street; American Indians and Alaska Natives receiving unemployment benefits; and refugees and recent immigrants who are English language learners—and then define priority outcomes for each group. In only paying for achievement of those outcomes, the funds will help accelerate the uptake of effective practices.

TOWARD MORE AGILE GOVERNMENTS

The scale of our problems requires powerful new mechanisms. We are facing a moment in which governments everywhere need to maximize the impact of every dollar they spend. Fortunately, we’re entering that moment armed with more information and stronger analytical tools than ever before. Sophisticated budgeting and spending tools, like outcomes funding, are not enough on their own to overcome the structural challenges we face—but they can

serve as a compass, helping to navigate states and counties toward what works.

Outcomes funds are how we accelerate that journey. They are how the public sector brings these powerful, but niche, tools into the mainstream—while strengthening the forces of smart government in building collaborative, cross-sectoral partnerships around economic mobility.



Sir Ronald Cohen is chairman of The Global Steering Group for Impact Investment and The Portland Trust. He is a co-founder director of Social Finance UK, US, and Israel; co-founder chair of Bridges Fund Management and Big Society Capital; and author of IMPACT: Reshaping Capitalism to Drive Real Change.



6

GOING ALL IN

LINKING FUNDING TO OUTCOMES AT TEXAS STATE TECHNICAL COLLEGE

/ MICHAEL REESER /

For decades, Texas State Technical College (TSTC) was like most higher education institutions in America. The level of our public support was based upon the Carnegie Unit, more commonly known today as the “credit hour” or “contact hour.” In practice, that meant that our financial well-being was driven by our class enrollment on the official Census Day of each academic term. Why? Not because enrollment on that day predicted course completion or graduation or employment success for our students. But simply because

Texas calculated funding allocations for higher education institutions based upon this single metric.

Since our fiscal viability depended on public funding, the entire college mustered extraordinary effort every term to maximize our enrollment number by the Census Day. The fact that financial frameworks drive institutional focus should surprise no one, but it frustrated our leadership team to see so much energy devoted to a metric that is so far removed from the true benefit the college provides to students and the Texas economy.

When I was appointed chancellor and CEO of TSTC in 2010, my predecessor had recently engaged in a dialogue with key members of the Texas Legislature regarding performance-based funding. At that time, more and more states were pivoting from funding formulas driven by access and enrollment to formulas that rewarded outcomes-based measures such as credit completion, persistence, and graduation rate.

We could see that these new outcomes may be the right ones for certain types of higher education institutions, but they struck us as still too far removed from our vision as a workforce college: *“TSTC will be a leader in strengthening the competitiveness of Texas business and industry by building the state’s capacity to develop the highest quality workforce.”* For more than five decades across our 10 campuses and 9,000 students, our singular objective has been training and placing a skilled workforce with Texas employers.

Our team was eager to partner with the Texas Legislature to develop a funding formula that aligned our public funding with the achievement of our mission. The process



*Our path was clear:
Work with the legislature to
build a formula in which the
employment outcomes of our
former students is the primary
determinant of our funding.*

of developing such a new approach took several years and required contributions from many. A review of that process may be helpful to others who wish to follow our example.

A pilot study conducted in 2009 supported the viability of a new method of outcomes-based funding. It demonstrated that TSTC graduates of associate and certificate programs had generated \$2.4 billion in lifetime tax revenue (~\$10,723 per graduate). Indeed, this study led Rep. Dan Branch, then chairman of the House Higher Education Committee, to conclude, “What was clear from the report was that technical graduates contribute to the state economy. But we needed more of them ... and without incentives, that just wasn’t going to happen.”¹

Our path was clear: Work with the legislature to build a formula in which the employment outcomes of our former students is the primary determinant of our funding.

¹ Jeffrey J. Selingo and Martin Van Der Werf, *Linking Appropriations for the Texas State Technical College System to Student Employment Outcomes* (Lumina Foundation, March 2016), www.luminafoundation.org/files/resources/linking-appropriations-to-outcomes-tx-1.pdf.

AN UNPRECEDENTED APPROACH TO FUNDING TECHNICAL EDUCATION

This effort began in a 2007 Texas Senate Finance Committee hearing when Sen. Steve Ogden, then chairman of the committee, asked each college and university leader how they felt about outcomes funding.

Most responses were a version of, “We think it’s a great idea!” So, too, was TSTC’s response.

The chairman continued, “How much of your funding are you willing to make contingent upon outcomes?”

Enthusiasm waned. Most answers amounted to “a small amount” or “none at all.”

When asked how much TSTC would be willing to make contingent upon outcomes, the response came without hesitation:

“One hundred percent.”

In fact, this response was so bold and unprecedented that the legislators expressed concern about the financial viability of the college. But TSTC was resolute. After all, we had a half-century of experience in putting people to work. Plus, we were confident in our ability to make the necessary operational pivots to protect, if not improve, our financial well-being under this new system.

Moreover, it was no coincidence that during this same period, for-profit career colleges across the country were coming under fire for spotty records in the employability of their students. So, TSTC found it irresistible to grab the opportunity to bet our funding on our historically strong record of student success in the workplace, thus differentiating ourselves from the for-profit institutions.

Though a funding formula is about money, we knew the biggest hurdle in this new method was the cultural shift that would be needed within the college to pivot our primary focus from maximizing inputs to maximizing outputs. So, going all in with an outcomes-based funding method was the best way to clear this hurdle. Accordingly, we resisted suggestions for splitting the funding formula between enrollment and employment outcomes. TSTC was convinced that an approach that split the funding drivers would also split the operational imperatives within the college, thus jeopardizing the transformation. With that conviction, we advocated for all or nothing.

Through two years of collaboration among TSTC, the Legislative Budget Board, the Texas Workforce Commission (TWC), and the Ray Marshall Center at the University of Texas at Austin's Lyndon B. Johnson School of Public Affairs—and under the guiding leadership of the Texas Higher Education Coordinating Board (THECB)—we developed the first-in-the-nation “value-added accountability funding formula.” In 2013, the legislature adopted the model.



TSTC was convinced that an approach that split the funding drivers would also split the operational imperatives within the college, thus jeopardizing the transformation.

***With that conviction,
we advocated for all or nothing.***

THE MECHANICS OF THE VALUE-ADDED FUNDING FORMULA

The implementation of the new funding formula was enabled by the Automated Student and Adult Learner Follow-Up System² (ASALFS), authorized by the Texas Legislature in 2003. The system was designed to allow institutions to monitor student workforce outcomes while complying with Family Educational Rights and Privacy Act (FERPA) regulations.

The process to develop the ASALFS was not simple. The legal staff of the THECB determined that the TWC was not an approved educational entity under FERPA, and thus they would/could not share student data with the TWC. Prior to this ruling, the TWC had been conducting college and high school student follow-up based on unemployment insurance (UI) wage record linkages for many years, determining post-exit employment and continuing education outcomes. Citing FERPA, both the Texas Education Agency (TEA) and the THECB ceased to convey student-level data to the TWC. The major sticking point was the conveyance of student Social Security numbers that were necessary to facilitate the wage record linkage process. To overcome this data sharing impasse, the TWC agreed to send UI wage record data to the THECB every quarter. THECB staff then remove the Social Security numbers and replace them with a common student identifier that is also applied to higher education and secondary education completion records to conduct the data linkage exercise. With this new system in place, we could once again generate labor market outcomes data for Texas students.

² “Automated Student and Adult Learner Follow-Up System,” Texas Higher Education Data, accessed February 12, 2021, www.txhighereddata.org/reports/performance/ctcasalf/exitcohorts.

Per the new model, 100% of the formula-driven portion of the state funding allocation would be informed by the following process:

- 1. List of eligible students:** TSTC generates a list of all students who have completed at least 9 semester credit hours as part of a given cohort. This list includes graduates and students who departed without graduating. (It was important to us that all students—not only graduates—informed our funding to eliminate any perverse incentives to “counsel out” students who might not have a positive impact on our workforce data.)
- 2. Generation of workforce data:** Per the data sharing agreement detailed earlier, wage information is analyzed to determine annual wages over five years, adjusted for inflation. The TWC is typically able to match 75% to 80% of the names submitted by TSTC; the remainder are predominantly students who have moved out of state. Wages not reported to the TWC are also not captured.
- 3. Direct and indirect value-added calculation:** Direct and indirect value-added are calculated. Direct value-added is defined as the incremental state tax revenue attributable to former TSTC students’ jobs, calculated as 7% of the difference between a student’s annual wages and a base wage representing a full-time employee earning minimum wage. Indirect value is calculated as 1.5 times direct value.³
- 4. Addition of total value-added over five years:** Direct and indirect value-added are summed together for the five years following departure for all students by campus.

³ This multiplier was selected based on a 2011 U.S. Bureau of Economic Analysis study: Zoë O. Ambargis, Thomas McComb, and Carol A. Robbins, “Estimating the Local Economic Impacts of University Activity Using a Bill of Goods Approach” (BEA Working Papers 0074, Bureau of Economic Analysis).

5. Division between the state and TSTC: Value-added is divided 50-50 between the state and TSTC. TSTC’s share informs its total allocation.

6. Campus-specific calculation: A value-added score is calculated for each campus based upon the proportion of TSTC’s total value-add generated by students from that campus. This proportion then drives the proportion of total TSTC funding assigned to a given campus.

It is worth noting that Texas doesn’t use hard-coded funding formulas for higher education. Rather, the different institutional formulas are used to indicate pro rata share for each institution of the total amounts allocated to the entire higher education sector. However, a growing number of legislators have suggested that TSTC should become the exception to this since the TSTC formula is results-based and not activity-based. Their proposal would mean that TSTC’s funding becomes a fixed amount driven by the formula while other institutions receive their pro rata share from the total allocation for higher education.

THE NEW TSTC

As intended, the new funding formula has transformed the operations of TSTC. For example, decision-making at every level is now driven by the primary question, “How can we put more Texans to work in great paying jobs?” Faculty and administrators alike understand that TSTC students who do not work in well-paying jobs do not generate funding for the college. This new reality created new priorities and practices.

Academic programs have transformed into business units. We’ve built a culture of agile, data-driven analysis, and each business unit now tracks its performance in relation to our common objective using a real-time dashboard of



Each degree or certificate program that we offer is subject to the same standard: “Are you earning your keep?”

key performance indicators. Our new Business Intelligence unit guides the college in seeing the relationships among the skills requirements of the labor market, the learning outcomes contained in our various credentials, and the employment and wage outcomes of our students.

Each degree or certificate program that we offer is subject to the same standard: “Are you earning your keep?” Regularly, we consider diversification, yield, and market trends—and we sunset the bottom-ranked programs and reallocate the recovered resources to create programs that offer more promising career pathways for students. So far, 13 programs closed due to poor earnings and placement outcomes; these programs were in the areas of agriculture, computer maintenance, pharmacy tech, and dental assisting.

The act of closing a program is rare in higher education and certainly not without controversy. But an outcomes-based approach requires making these tough decisions. Phasing out one program while ramping up another is hard work. It can adversely impact enrollment. However, we decided that we would rather take a temporary reduction in enrollment than offer programs lacking a strong employment value for students.

As a result of the closure of those 13 programs, our enrollment dropped by 25%, from 12,000 to 9,000 students. This was a painful but necessary trade-off as we reallocated finite resources to more market-relevant offerings that would see greater student salaries and higher placement rates. In the

long run, enrollment will recover as the competitive value of these new offerings and delivery methods attract more students and employer partners.

The new formula required us to take a more active role in helping our alumni get jobs. No matter how well trained they are, they do not support our financial sustainability until they are employed. Below is a sampling of the new strategies we have implemented:

- **Money-Back Guarantee:** For select programs, students are eligible for a complete refund if they do not have a job within six months of graduation.⁴
- **Rapid Skills Training:** We launched 12 rapid upskilling and reskilling training programs with completion times in as few as seven weeks, with another dozen programs in the works.⁵
- **Bachelor’s+:** Instead of transferring students to a four-year institution, we partnered with flagship university Texas A&M to train undergraduate engineering students in critical workplace skills to boost their employment prospects.⁶

We also learned that a refresh of our product mix was needed. Under the census-based funding formula, our inherent financial incentive was to make every credential as long as possible. After all, more contact hours meant more funding. Today, our credential length is determined by the hiring preference of Texas employers. In a growing number of cases, shorter credentials with deeper specialization

⁴ “Money-Back Guarantee,” Texas State Technical College, accessed March 16, 2021, www.tstc.edu/about/moneybackguarantee.

⁵ “RISE—Rapid Industry Skills and Employability,” Texas State Technical College, accessed March 16, 2021, www.tstc.edu/programslist/rise.

⁶ “Bachelor’s+ Program,” Texas A&M Engineering Experiment Station, accessed March 16, 2021, <https://tees.tamu.edu/workforce-development/professional-education/bachelors-plus.html>.

were preferred over longer, generalized credentials, like associate degrees. So, our product mix has broadened, and the credential length has shortened. For example, a number of students are starting to opt for fast-to-work credentials that take a semester or less to complete.

EARLY METRICS

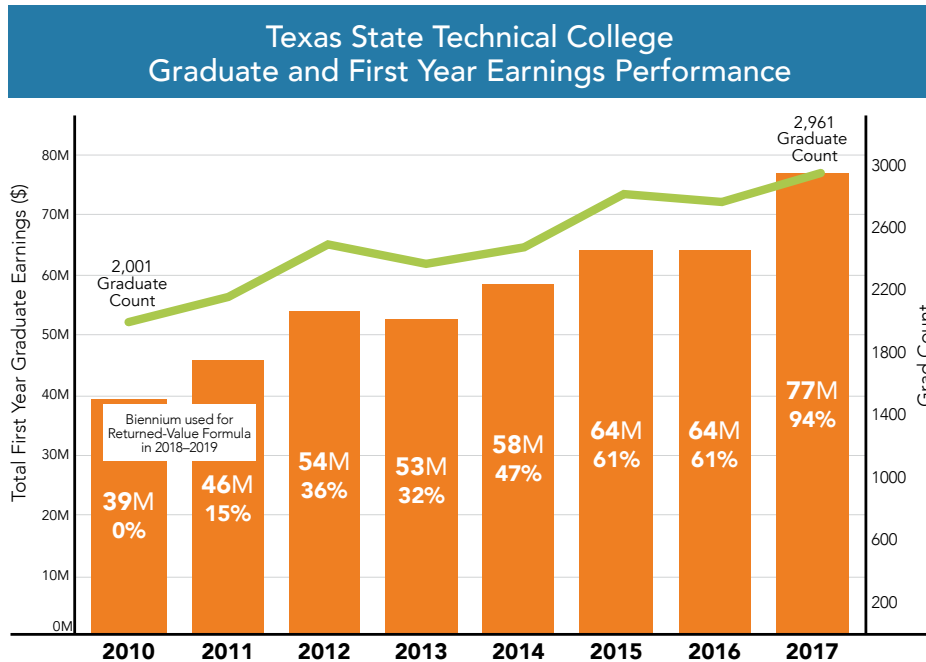
The early results indicate that we are moving in the right direction. Since implementing the new funding method, TSTC graduates have seen a 26% increase in starting wages (\$31,075 in 2009 to \$39,086 in 2017), and the number of students placed in jobs is up 65%, growing from 1,801 to 2,912 for the same period. Placing more students in higher paying jobs has generated a 117% increase in combined graduate earnings and a 45% increase in the administration and instruction formula funding (from the 2014/2015 biennium to the 2020/2021 biennium).

These impressive numbers are not the only benefits seen at the college. As the old saying goes, “Success begets success,” and that notion is at play in our college culture, too. As programs and employees see the growth in student placements and wages realized, their motivation to achieve better results grows. Programs have concluded that their future is determined by factors within their control. This empowerment has led to better faculty and staff engagement.

OVERCOMING STRUCTURAL BARRIERS AND INSTITUTIONAL RESISTANCE TO CHANGE

When we set out our vision, internal and external critics abounded. As TSTC Vice Chancellor Michael Betterworth reflects, “Our administrators are zealously entrepreneurial, and many bring business sector experience and recognition that successful operations must constantly change to stay relevant in evolving environments. That often means calculated risks aimed toward innovative change.” The following are critical challenges we encountered and how we have addressed those challenges.

1. It will be (almost) impossible to get the data you need. As discussed earlier, we were fortunate that the ASALFS was already instituted and enabled access to the necessary data. Without a UI wage record-based student follow-up system, the TSTC funding formula would not have been possible. Texas’ system was deemed to be fully FERPA-compliant and has been replicated by other states. Since the mid-2000s, the processes behind the ASALFS have become almost universal. Practically every state conducts some form of automated student follow-up using UI wage records. Some states, such as Alaska, Louisiana, Indiana, and Nebraska, have even experimented with augmenting state UI records to add variables, such as hours worked and job title, that are not



Data Source: CBM009, CBM00M, TWC UI Wage Records Data Parameters (4 Quarters Only)

Created By: Business Intelligence. Date Updated: 09/24/2020

Authors: Tina Skidmore, Stephanie Vestal, and Dave Huynh

currently included in the federal UI requirement. But, as with most data, the magic is less in the collection and more in the policy-focused application of the data.

2. Even with access to the data, there will be lots of holes, and proving causality will not be possible.

Even after surmounting the obstacles to data access, we found significant holes in the data, such as students who move out of state following graduation and high school students completing dual-credit enrollment. In addition, the data does not reflect whether a student is working in the field of study and cannot assess the extent to which the education received accounts for wages earned. In the absence of a better alternative, we accepted this inherent messiness. We accepted that 20% of our students would likely not be counted. A perfect system? Absolutely not. Overall, though, it achieves its objective: It captures the direction of change in the manner in which we contribute economic value to Texas.

3. But shouldn't higher education have a loftier mission?

It's not just about a paycheck! Detractors frequently argue that higher education should not just be about preparing workers. It should be about cultivating knowledge, developing critical thinking skills, conducting research, promoting the advancement of scholarship, and perhaps even helping students to discover themselves. We would argue that there is great diversity in types of higher education institutions. Would it make sense for a liberal arts college with tenured faculty and a deep commitment to academic freedom to receive funding solely based on workforce outcomes? Of course not. But scholarship appears nowhere in our mission or vision. We are a workforce college, and alignment between funding and mission is essential. So, we focus on maximizing student employability by providing fundamental academic

knowledge, world-class technical training, and critical workplace essentials such as problem solving, critical thinking, teamwork, and communication.

4. Long-time employees may struggle with the changes.

The swift, deep pivot profoundly changed the TSTC ethos. During the early years, some employees who had been with the college for decades expressed concern for the disruption of the TSTC they had come to know. The phases of mourning were common within the ranks. Moreover, many struggled with the new expectations, like higher levels of personal accountability. This discontent manifested in many ways. Turnover was higher, and morale dipped for a while. The keys to persevering through these challenges were immutable commitment of the board and administration and constant communication throughout the organization. The metaphor of "burning the boats" was a helpful one.



It is essential that an outcomes-based funding formula authentically follows the mission of the institution. Funding drivers bring intrinsic and powerful operational incentives.

THOUGHTS FOR OTHER INSTITUTIONS

This unique approach is ideal for TSTC but may be ill-suited for others. However, we imagine that our work may inspire new thinking at other higher education institutions and state governments. This final section contains some concepts that we have found helpful.

Pay for the outcomes that the institution is designed to achieve. It is essential that an outcomes-based funding formula

authentically follows the mission of the institution. Funding drivers bring intrinsic and powerful operational incentives. So, the fundamental intent must be to align funding in ways that would change the behavior of the institution toward the desired outcomes. There is no more important question than articulating, measuring, and paying based upon the outcomes that define success for a given entity.

TSTC's mission is placing skilled technicians with Texas employers. Our formula focuses solely on that. Other institutions may have a broader range of desired outcomes, so their approach should be appropriately broad. The missions of other higher education institutions vary greatly, and it would be a mismatch to establish a payment structure based on earnings if that is not a primary institutional goal. For example, a community college that aims to serve as a pathway to four-year institutions might want to tie payment to transfer rates.

Don't be tempted to iterate too quickly. We decided from the start that we would not make any changes in the formula method for the first five to eight years following implementation. From a change management perspective, a moving target is nearly impossible to hit. Though each legislative session brought additional elements that we wished were different, we believe it is important to hold steadfast to something before considering revisions.

Keep it simple. There is a natural push toward complexity to try to generate a measure that calculates payments in the most precise and nuanced way. Governments want to piece out the specific contributions of the institution, and institutions want to get credit for everything they do. Ultimately, there is nothing more complex than projecting economic and business fluctuations and accounting for human behavior—both of which can influence student placement rates, much of which is out of our direct control. We have no method to parse those earnings that are directly

attributable to our instruction, and there is no perfect instrument for measuring all post-exit earnings gains.

In our case, we also acknowledge limitations in our formula and measurement processes. For example, we recognize that more than 20% of our students are not counted. We recognize that employment rates and wages can fluctuate for economic reasons beyond our control. We recognize that we are getting credit (or blame) for students who may have transferred to other institutions after 9 credit hours. Nonetheless, as much as we love data, we have resisted all efforts to add in other outcomes or increase complexity in our measurement approach. As soon as we measure other things, institutional focus would be divided. We want all our business units to focus exclusively on one goal: Get as many students as possible in well-paying jobs. So, we chose to not let the perfect be the enemy of the good.

Even after we pass the initial five to eight year “freeze,” we will resist trying to complicate the model.

Consider unintended consequences. Performance-based funding can often lead institutions to focus on selecting the easiest-to-serve students. In addition, scholars have documented that it is possible for performance-based funding in higher education to trigger additional compliance costs, a narrowing mission, a reduction in investment in general education, restriction of admissions, weakening academic standards, and a diminished faculty voice in academic governance.⁷ We have kept our mission and enrollment criteria very broad and avoided any efforts to get better results by recruiting more advantaged students. Awareness of these potential unintended

⁷ Kevin J. Dougherty, Sosanya M. Jones, Hana Lahr, Rebecca S. Natow, Lara Pheatt, and Vikash Reddy, “Performance Funding for Higher Education: Forms, Origins, Impacts, and Futures,” *The Annals of the American Academy of Political and Social Science* 655, no. 1 (2014): 163–184.

consequences is helpful in mitigating their potential to derail the objectives.

Prepare for dissent, and make sure you have support from the top. It is inevitable that any leader undertaking this type of sweeping change will face vehement resistance. Therefore, it is necessary to ensure that the board and senior administrators are fully bought in and publicly and privately supportive. Without this type of steadfast backing, our leadership team would have been quickly unemployed, and TSTC would still be funded based upon enrollment, not outcomes.

Obtain and maintain legislative buy-in. From the beginning, the unconventional nature of the formula has proved challenging. It's so different; it requires a constant effort to inform, explain, and remind legislators about the mechanics of the formula. In particular, emphasis must stay on the fact that a performance-based formula works best when funding consistently follows the desired results. The 83rd Texas Legislature in 2015 was the first to fund TSTC based on the new formula. However, two years later, the formula faced its biggest legislative hurdle, one that threatened its stability and ultimate success. During an extremely difficult budget year, the legislature opted to disregard all higher education formulas and simply appropriate the same amount as the previous biennium. Because TSTC's performance metrics had shown dramatic growth, the formula indicated a large increase should have been appropriated to the college. By holding the appropriation level, the effect could have established a historically low and inaccurate benchmark for the formula in future years. TSTC and its champions, both in and out of the legislature, worked diligently to correct this. This collective effort proved successful in the 2019 legislative session. The formula's rates were restored, its integrity was honored, and TSTC received the largest funding increase in its history because it had produced a record level of results.



An outcomes-based funding mechanism serves students only if it leads the institution to use data in savvy new ways, create new student wraparound supports, and build a new performance culture.

As I write this, TSTC's brand has never been stronger in the legislature, and its performance-based formula is often held up as a model for the rest of higher education throughout Texas and beyond.

Go all in. Changing the incentive structure is just the start, and the institution must be prepared to transform how it does business. An outcomes-based funding mechanism serves students only if it leads the institution to use data in savvy new ways, create new student wraparound supports, and build a new performance culture.

THE FUTURE OF TSTC

We knew we would see big challenges when we committed to this novel path. After a decade of extraordinary changes, TSTC is better positioned now than ever before to strengthen the competitiveness of Texas business and industry by building the state's capacity to develop the highest quality workforce. We have established simple, stable, aligned goals and incentives. We have empowered management at all levels to implement innovative business practices. We have increased autonomy and accountability in decision-making.

With the enabling environment established, we are now

prepared to tackle a vast body of work that lies ahead, including transformations that would have been impossible under contact hours. Our conventional rhythm of three annual terms with time-bound classes and schedules will be replaced with competency-based pathways with multi-entry, multi-exit calendars; open labs; flipped classrooms; and “gamified” curricula. Our training environments will be structured in ways that are fashioned like the workplace, not the lecture hall. Soft skills embedded in the training curriculum and training labs will be taught and assessed. Business hours will expand to include nights and weekends and, as a result, nontraditional students will find a friendlier environment. So, too, will those who seek lifelong learning by “dropping in and out” of college whenever their career objectives evolve and new skills are needed.

Students will have payment flexibility, too. Conventional tuition-based plans will be joined by monthly-fee, all-you-can-study plans. Some programs may also offer income share agreement options to students who need to study now and pay later.

By doing these and other things, we plan to lead the nation in producing graduates who have the hard and soft skills necessary to build their careers within Texas’ hottest industries.



Michael Reeser is the chancellor of the Texas State Technical College system. Previously, he served as president of Texas State Technical College West Texas.



7

FAST FORWARD:

TRIPLING CREDENTIALS BY SHARING RISK AND RESPONSIBILITY

/ DR. GLENN DUBOIS /

In 2015, the Virginia Community College System (VCCS) adopted a six-year strategic plan with a singular goal: Triple the number of credentials awarded.

The initiative, *Complete 2021*, was animated by the calculation that, by 2025, Virginia would need to fill 1.5 million jobs—many requiring a postsecondary credential. The mandate from the governor and the Virginia General Assembly was to build the infrastructure to prepare Virginians to fill the jobs our economy demands.

Even though credential programs tend to cost a fraction of degree-granting programs, they remain inaccessible for many candidates, in part because Pell Grants and many other traditional student financing mechanisms cannot be

used to pay for credential programs. People working full-time who are eager to change careers can find the upfront cost prohibitive. Nearly half of all American adults lack the money to cover an unexpected \$400 medical emergency, according to the Federal Reserve.¹ Shawn, who trained at Blue Ridge Community College, reflected, “Before I got my CDL [commercial driver’s license], I was a factory worker, and I was working six days a week just trying to make a living for my family.”

To create an affordable option for students, we tried something unprecedented: Construct a system of shared responsibility and shared accountability that would bring together students, employers, the state, and VCCS—and give each one a financial stake in success. And, at the same time, we envisioned that the program would eventually pay for itself through decreases in social service benefits and increases in income tax revenue.

LEAVING BEHIND THE STATUS QUO

At the time of adoption of our new strategic plan, I conducted 22 town halls across our colleges. At these meetings we discussed the “one-two-seven” framework that we learned about early on and found consensus with it across the state. The typical workplace requires one person with an advanced degree, two people with bachelor’s degrees, and seven people with some sort of technical training. For example, one doctor may be supported by a physician’s assistant, a nurse, and seven technicians in roles such as phlebotomists. I saw our mission as preparing the “sevens.”

¹ Board of Governors of the Federal Reserve System, *Report on the Economic Well-Being of U.S. Households in 2018–May 2019*, May 28, 2019, www.federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-dealing-with-unexpected-expenses.htm.



Our research and conversations led us to believe that incentives matter. While students always want to succeed, they are more likely to persist when they have a financial incentive to do so. And, while our institutions have always been engaged wholeheartedly, a financial incentive more substantively aligns us with student success.

But credentialing programs don't always actually yield credentials for many reasons. We're committed to serving all students; unlike the state's selective universities, our goal is access. Credentials require course persistence, completion, and passing a test that assesses competencies in a set of skills.

In a typical credentialing program, students front the cost of training, whether through out-of-pocket expenditures or by taking on debt. For the training provider's bottom line, it doesn't matter if the student never shows up or completes the course successfully. It doesn't matter if the student ever passes the exam to earn the credential. At the same time, for busy students juggling professional and family obligations, tuition is a sunk cost.

Our research and conversations led us to believe that incentives matter. While students always want to succeed, they are more likely to persist when they have a financial incentive to do so. And, while our institutions have always been engaged wholeheartedly, a financial incentive more substantively aligns us with student success.

Pivoting to a new system represented substantial financial risk for VCCS. But those risks were the only pathway to meeting the need.

ALIGNING INCENTIVES: THE FASTFORWARD MODEL

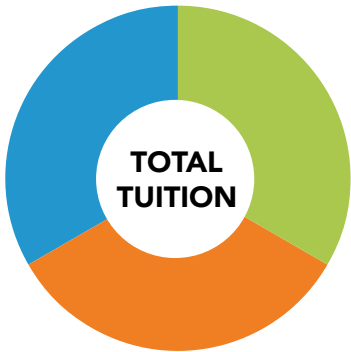
To achieve the vision of *Complete 2021*, we designed and launched the FastForward program in partnership with the Virginia legislature. As illustrated in Figure 1, the core design of this program is simple:

- Upon enrolling in a course, a student is responsible for paying one-third of the tuition (which is less than \$800 on average). In some cases, employers cover this first third. For those who can't afford it, we have created financial assistance to help.
- If the student completes the course, the state pays the institution the second third of the tuition. On the other hand, if the student doesn't earn a satisfactory mark in the course within 30 days following the course completion date, they have to pay instead. (Similarly, employers who pay for their employees commit to paying this second third if the student does not complete, though in some cases, the employer may require the student to repay it.)
- If the student earns the credential, the state pays the final third of the tuition. If the student does not earn the credential, the institution does not recoup this final third.

FastForward makes training providers' revenue conditional upon both course completion and credential attainment. Historically, all too many students had completed courses with passing marks only to fail the credential exam—or to not take the exam at all. That doesn't move us toward our goal of tripling the number of credentials earned.

/ FIGURE 1 /

The FastForward Model for Financing Postsecondary Credentials



Total tuition cannot exceed \$4,500, so the state will pay a maximum of \$3,000 per credential.

1

THE STUDENT pays the first third of tuition at the time of enrollment.

In some cases, this first portion is covered by employers or public funding sources.

2

THE STATE pays the second third of tuition when the student completes the course.

If the student does not complete the course, that student (or, in some cases, the employer) must pay this second third.

3

THE STATE pays the final third of tuition when the student earns the credential.

If the student does not earn the credential, the training provider loses this tuition.

EVOLUTION

Despite much excitement and fanfare surrounding the launch of FastForward, early results showed us where improvements were needed. Some eligible students couldn't afford the first third of tuition. Credential attainment rates remained low. Employers were still not getting the amount of trained workers they needed.

However, we gathered robust data on the model and dedicated time to studying it, iterating on our program model and learning from our students. We implemented a series of changes to adapt the program:

- **Increasing access for students with limited financial resources:** We collaborated with the legislature to create a new pool of funds to launch the Financial Aid for Noncredit Training leading to Industry Credentials (FANTIC) program. This program funds the first third of tuition for adults who have a household income that is under 400% of the national federal poverty limit and who have a high school diploma but no postsecondary degree. Students are required to take the credential exam at the end of the course, must pay out-of-pocket to retake the exam if they do not pass, and must provide their college with proof that they have obtained the credential. FANTIC has dramatically expanded access to FastForward.
- **Student counseling prior to enrollment:** We have learned a lot about what factors in a student's life are correlated with strong performance in each of our programs. Our career coaches now work individually with students before they select a credential program to help them maximize their odds of success. Coaches address considerations ranging from program duration to travel and child care logistics to help students choose programs that are well-suited to their life circumstances and find other resources to overcome barriers to completion.
- **Career coaching during and following coursework:** FastForward students have access to coaching services from the time they enroll in a program, throughout their course of study, and through the career placement process.
- **Refining credential offerings:** Using data on credential attainment and employment outcomes, we revised our set of offerings and have developed structures to constantly reevaluate which programs to expand and which to cut.



Since the credential is the bridge to opportunity, we are proud to teach with the test in mind.

FASTFORWARD TODAY

During the program's first four years, FastForward participants earned more than 16,000 credentials. While FastForward students are highly diverse in their backgrounds and life circumstances, our students are disproportionately working parents, often in their 30s and new to higher education. Twenty percent of FastForward enrollees were recipients of social service benefits before enrolling in a program.

The program now offers more than 220 credentials in industries ranging from skilled trades to information technology to healthcare to logistics. The typical credential takes six to 12 weeks and can be completed during evenings or weekends while working full-time; many offerings are available virtually.

More than 90% of students who have enrolled have completed their courses. A recent survey of graduates found that wages increased by an average of \$8,000. Eighty-three percent of graduates reported that they now have paid vacation time, 81% reported employer-paid health insurance, and 87% percent reported satisfaction with their work schedule. We've heard from parents who can afford to attend their children's sporting events and dance recitals for the first time because they have a consistent work schedule.

Our institutions have always supported students in earning credentials, but the introduction of a strong financial incentive forced us to do more—to be more creative and more focused. Since the credential is the bridge to opportunity, we are proud to teach with the test in mind. In

fact, the leaders of each program dedicate themselves to understanding in detail the competencies necessary to pass the credentialing exam and design their courses to cultivate these competencies.

What started as an investment of \$4.5 million per year from the state has now expanded to \$13.5 million per year. Our analysis suggests that these investments are more than repaid through reductions in benefits utilization and increases in state income tax. Virginia is among the states with the highest share of revenue coming from income taxes; for states like us, getting workers into higher-paying jobs pays dividends.

As we look back at FastForward history, we are inspired by the results achieved across our 23 colleges. Our institutions have risen to meet the challenge of closing the skills gap in Virginia. But we are also continually innovating and looking for ways to expand our programs to offer all Virginians the opportunity to advance their careers—and our state's economic development—by earning in-demand credentials.



Dr. Glenn DuBois has served as chancellor of the Virginia Community College System since 2001. He acts as chief executive officer of a 23-college, 40-campus system of comprehensive community colleges located throughout the commonwealth of Virginia.

8

MONEY-BACK GUARANTEE

A STAFFING AGENCY FOR THE SOCIAL SECTOR

/ AMELIA NICKERSON + CASONYA THOMAS /

Staffing firms have long provided a high-value, outsourced approach to recruiting and retaining talent. Businesses hire staffing firms to help them assess their personnel needs, source promising candidates, conduct initial interviews, and handle contracting and payment. Staffing firms maintain databases of talented employees, enabling them to offer businesses easy access to a large pool of prescreened candidates. For individuals, staffing agencies increase the chance of getting hired, offer coaching and training, and minimize time between jobs. In many cases, individuals placed by staffing firms remain on the payroll of the staffing firm.

Most of the roughly 25,000 staffing firms in the U.S.¹ are for-profit entities with healthy profit margins. The typical staffing firm does not have a social mission and, therefore, rarely works with candidates who lack traditional qualifications or require significant support to enter the workforce successfully.

First Step Staffing (FSS) is similar to other staffing agencies in the services it offers to employers, but its clients are quite different from those of its peers. FSS helps housing-insecure and justice-involved individuals access jobs. A nonprofit workforce development agency, FSS brings a social enterprise model to the staffing firm space. In addition to offering the traditional services of a staffing agency, FSS provides wraparound services that enable individuals with unstable life circumstances to succeed in job placements.

A SELF-SUSTAINING MODEL TO HELP INDIVIDUALS EXPERIENCING HOMELESSNESS OBTAIN AND RETAIN JOBS

FSS serves individuals who face chronic challenges to obtaining and retaining work—primarily military veterans, housing-insecure individuals, and formerly incarcerated individuals. FSS provides support to ensure both that clients successfully obtain financial stability through paid work and that employers are satisfied with the talent placed by FSS. To help individuals mitigate persistent barriers to rejoining the workforce, FSS offers a cadre of wraparound services through local partners.

¹ "Staffing Industry Statistics," American Staffing Association, accessed February 12, 2021, <https://americanstaffing.net/research/fact-sheets-analysis-staffing-industry-trends/staffing-industry-statistics>.

In each city where FSS has launched, it has done so by acquiring a for-profit staffing firm and converting that firm to a social enterprise. It is very uncommon for mission-based organizations to take this approach, and FSS defines this practice as critical to its success. FSS obtains two key assets by acquiring and converting existing firms: staff and employer partners. Experienced staffing firm professionals bring deep knowledge of the staffing field as well as personal knowledge of the clients and their industries. While it might be hard for a social service agency such as FSS to market itself to corporate clients, the agency has been highly effective in retaining the employers of the acquired agencies and proving the ability to fulfill their needs effectively over time.

Operationally, FSS pays clients weekly while receiving payment from employers according to the 30-to-45-day terms standard to the staffing industry. Therefore, apart from the capital necessary to purchase a staffing firm and establish operations, FSS needs to raise initial working capital in each market to ensure that, from the start, clients are paid in a timely fashion while the firm awaits employer payments.

After building its brand and experience in Atlanta, FSS obtained loans to expand. When FSS expanded to Philadelphia, it borrowed funds to cover 90% of its capital costs and secured grants and government contracts to cover the balance.

SHARING RISK AND RESPONSIBILITY TO BRING FSS TO SAN BERNARDINO

In recent years, the need for innovative employment solutions for homelessness in Southern California has grown more and more urgent. According to San Bernardino County's annual point-in-time homelessness assessments, the number of homeless individuals has increased from 2,118

in 2018 to 2,607 in 2019. We believed employment could be one part of the solution to help people permanently exit homelessness.

FSS sought to expand into San Bernardino by purchasing part of OS4Labor, a for-profit staffing firm that held contracts with thousands of employers to provide temporary, temp to hire, and direct hire placements across roles including industrial, transportation, administrative, managerial, and professional positions. Through the acquisition, FSS could gain access to nearly 2,000 positions, primarily with employers in the light industrial and logistics sectors. The county of San Bernardino would refer people experiencing homelessness to FSS, and FSS would place these individuals as natural turnover occurred in positions under contract with the staffing firm. The key question for FSS was how it would access the working capital necessary for the acquisition and launch.



Nothing, not even housing, rebuilds social capital more quickly and in a more fulsome way than having a job.

The county of San Bernardino had long focused on helping homeless individuals obtain housing through cash assistance, access to Temporary Assistance for Needy Families (TANF), and behavioral health services. The county sought to expand its partnerships to help these individuals achieve independent living by securing and maintaining jobs well-suited to their talents and needs. Philip Mangano, advisor to the county on homelessness and CEO of The American Round Table to Abolish Homelessness, reflected, "Part of the work in homelessness and the restoration of peoples' lives is the rebuilding of social capital. Nothing,

not even housing, rebuilds that social capital more quickly and in a more fulsome way than having a job.”

When FSS approached San Bernardino County, it was evident that FSS’ unique approach to job placement and support was closely aligned with the workforce development and human services priorities of the county. The county saw FSS as a natural addition to its set of partners serving homeless, housing-insecure, unemployed, and justice-involved populations.

That’s when San Bernardino County decided to do something innovative: Provide funding for the program with a money-back guarantee. The county built on emerging thinking from the Pay for Success ecosystem around “[social impact guarantees](#)” and designed a contract driven by results.² A social impact guarantee, a concept introduced by Third Sector Capital Partners, offers governments a money-back guarantee in the case that a social service program fails to achieve its desired outcomes. Prior to beginning conversations with the county, FSS had secured



That’s when San Bernardino County decided to do something innovative: Provide funding for the program with a money-back guarantee. The county built on emerging thinking from the Pay for Success ecosystem around “social impact guarantees” and designed a contract driven by results.

² George Overholser, “Social Impact Guarantees Could Enable Pay for Success Contracting to Scale More Rapidly,” in *What Matters: Investing in Results to Build Strong, Vibrant Communities*, by Federal Reserve Bank of San Francisco and Nonprofit Finance Fund (Federal Reserve Bank of San Francisco, 2017), 156–61, <https://investinresults.org/chapter/social-impact-guarantees-could-enable-pay-success-contracting-scale-more-rapidly.html>.

other sources of capital to support startup costs. FSS required additional funds to acquire an existing staffing firm and establish physical operations. The county was open to providing financial support for the program—but only if it had a guarantee that its funds would yield significant impact in employment outcomes. For its part, FSS wanted to ensure that the county would also be responsible for providing the necessary referrals.

FSS and San Bernardino County arrived at an agreement. San Bernardino would provide a one-time transfer of \$1.5 million to FSS, and FSS committed to place at least 70% of referrals received, up to a maximum obligation of 2,000 individuals placed per year. If FSS failed to achieve the target performance metrics, the county would be entitled to “claw back” a portion of the funds.

In performance-based contracts elsewhere, service providers have found it particularly challenging to secure sufficient referrals to achieve target metrics; such problems can leave service providers on the hook financially, even when they have served the clients who were referred well. To align incentives and to protect FSS in the case of low referrals, the contingency was tied to the percentage of referrals placed as opposed to an absolute minimum number of placements. At the same time, the inclusion of a maximum number of required placements protected FSS from financial consequences in the case of a very high number of referrals.

If the actual placement rate was under 70% and the total number of placements was under 2,000 in a given year, FSS would be required to return a portion of funds. In such a case, the amount owed by FSS would be calculated according to the following formula:

$$((\text{Percentage of Referrals Placed})/0.7) - 1) * \$375,000.$$

To secure potential claw-back payments, FSS provided the county with \$300,000 in collateral funds to be held by the county in a noninterest-bearing account for the duration of the contract. In the case of underperformance, these funds would be used toward FSS' repayment obligations. In the case that FSS achieves the 70% placement rate and/or at least 2,000 placements per year every year, the \$300,000 would be returned to FSS at the completion of the contract.

The county's funds for these job placement services came from multiple sources: 50% (\$750,000) from identified savings of existing Discretionary General Funding in the Human Services claim budget unit, 25% (\$375,000) from the Law and Justice Group from the Southwest Border Prosecution Initiative, and 25% (\$375,000) from the 2011 Realignment-Local Innovation subaccount funds.

The creation of this innovative contract was enabled by leadership from county officials, by collaboration between county legal counsel and FSS' CEO and assistant executive officer, and by the existing infrastructure of social service agencies. Support from Human Services, Workforce Development, and other county agencies, as well as from community and faith-based partners, was essential to the execution of this project. This existing infrastructure and the county's belief in FSS' model generated confidence that FSS would meet the placement targets. At the same time, no social service program is guaranteed to achieve its desired results; building the contract around results allowed the county to reclaim taxpayer dollars if things did not work out as hoped.

Individuals referred to FSS typically require ongoing support services to succeed. In San Bernardino County, existing interagency partnerships have proved successful in supporting FSS clients. FSS coordinates with the county and community and faith-based organizations to provide

transportation, job coaching, housing placement assistance, and mental health resources as needed. These services are also offered at no cost to the job seeker and are paid for by county and community partners.

EARLY SIGNALS

It is too early to know whether FSS will hit the targets established by this collaboration, particularly given the labor market upheaval caused by COVID-19.

To date, FSS and the county have demonstrated a powerful model of collaboration and have set the program up for success. Strategies adopted to date include:

- **Implementation of structures to facilitate collaboration:** The county and FSS meet weekly and communicate regularly by phone and email regarding referrals and job placement matters. In addition, they share referral data every week.
- **Relationship building:** The county has proactively introduced FSS to key stakeholders. The county and FSS collaborate on efforts such as hiring events at partner work sites and expanding employment opportunities in remote areas of the county.
- **Marketing:** The county has organized countywide presentations to create awareness surrounding FSS' offerings and recruit new referring partners.

On an anecdotal level, placements to date have been well-received by both employers and clients. A transitional assistance client reported: "I was referred to the program ... and was called right away [by] FSS. I went in to apply; [that] same day I was hired and [I] started working the next day. I was able to get income right when I needed [it]." Similarly, another client shared: "Working with FSS, I got a

phone call and the next day I went in and applied for a job. They quickly took my information and called me back by the next day and had me working within that week.”

In the markets where it is more established, FSS has achieved strong results. In Atlanta, where FSS first acquired and converted a for-profit staffing firm in 2016, FSS currently employs 1,250 individuals, 750 of whom were homeless at the time of enrollment. In Philadelphia, which FSS entered in 2018, the firm converted 64% of the 700 acquired jobs into opportunities for clients experiencing homelessness. FSS has demonstrated not only its effectiveness in serving customers and employers but also its sustainability as an enterprise, earning \$17 million in revenue in Philadelphia, achieving 100% employer retention, and adding new employers.

Apart from the direct employment outcomes the contract was designed to deliver, COVID-19 has highlighted the value of the strong cross-sector partnerships supported by the structure of the FSS/San Bernardino contract. Over the two years since the contract was signed, workforce development agencies and community-based providers have deepened their knowledge of the offerings of other members of the ecosystem, strengthened their referral network, and established tools for collaborating regarding clients. Increased communication among peer organizations has also enabled entities to identify and begin to address gaps in services, a particularly critical practice given the rapidly changing landscape of needs, funding streams, and services during COVID-19. The workforce ecosystem has grown even more innovative in coordinating with supportive services to ensure they are lowering barriers and increasing worker success. More generally, the tightened safety net has effectively helped the county’s most vulnerable individuals weather the turbulence of COVID-19.



The contract offers governments a way to provide startup funds with an outcomes-based contingency that ensures that taxpayer dollars are achieving their goals. Governments assure a certain level of referrals, and service providers take on the financial risk if targets are not achieved.

CONSIDERATIONS FOR OTHER JURISDICTIONS

The contract that FSS and San Bernardino established may be a model both for FSS as it expands to other jurisdictions and for other social service programs seeking to collaborate with governments.

Three components of this contract are particularly powerful.

First, the contract offers governments a way to provide startup funds with an outcomes-based contingency that ensures that taxpayer dollars are achieving their goals. Governments assure a certain level of referrals, and service providers take on the financial risk if targets are not achieved. Such a structure is appropriate only for a social service provider that is financially stable enough to withstand the potential hit to its balance sheet if it is necessary to repay the upfront investment. And of course, it is possible that a service provider could execute brilliantly and yet fall short of targets for reasons beyond its control, such as unanticipated macroeconomic forces.

Second, the nature of the claw-back provision aligns incentives among stakeholders. FSS must meet the necessary placement targets to retain the \$1.5 million in funds provided by the county, and the county must provide sufficient referrals to maintain the applicability of the claw-back provision. The structure not only provides protection for both parties but also creates mutual incentives to complete sufficient referrals to hit the targets within the contract.

Third, kickstarting sustainable programs like FSS can be a particularly impactful target for public dollars. Governments and philanthropists are often wary of committing to programs that will require continual infusions of capital. Social programs such as FSS that can generate sufficient revenue to cover their operational costs and require only startup capital present a cost-effective way of expanding high quality programs.

Additional outcomes and lessons learned will emerge over the coming years. In the interim, the structure of the partnership itself is already demonstrating its power. The importance of this kind of approach—and the collaboration and transparency it ensures—has been accentuated as the nation confronts the unprecedented challenges posed by COVID-19. The contract structure promotes shared responsibility, clearly defined shared goals, and a set of shared strategies to translate those goals into positive outcomes for the community. As stated by Curt Hagman, chairman of the San Bernardino County Board of Supervisors, “The program is designed to have a lasting impact—it’s an innovative approach to disrupt the cycle of poverty by providing employment opportunities that lead to upward economic mobility and hope for a better future.”



Amelia Nickerson joined First Step Staffing in January 2018 and was appointed CEO in May 2020. She has more than a decade of experience as a fundraiser, volunteer, and board member for nonprofits across the Southeast.



CaSonya Thomas is assistant executive officer, human services of San Bernardino. She began her public service journey with San Bernardino County in 1991 and has nearly 30 years of public sector experience.



EMPLOYERS AND THE WORKFORCE SYSTEM





The lack of employer investment in workforce programs perpetuates inequalities in the labor market and creates barriers in finding and retaining skilled talent.

9

REWIRING WORKFORCE PARTNERSHIPS

TRAINING MODEL INNOVATION IN PHILADELPHIA

/ TYRONE HAMPTON JR. + ASHLEY PUTNAM /

Even before the 2020 pandemic resulted in massive layoffs and business closings, disparities in the U.S. labor market were evident.¹ Closing these gaps requires novel approaches to funding job training and upskilling programs, but a common challenge is the employer’s

role in such funding. Although employers offer input into workforce programming—they sit on workforce boards, they provide insight into industry needs, they participate in industry partnerships—they are not usually financially invested. The lack of employer investment in workforce programs perpetuates inequalities in the labor market and creates barriers in finding and retaining skilled talent.

The Pay for Success (PFS) partnership profiled in this case study is groundbreaking because it is the first time an employer (rather than a nonprofit or government agency) is acting as the investor—the partner paying back the service provider that takes on the risk of training potential employees. In a workforce-focused PFS partnership, a payor (usually a government entity) and a social service provider come to an agreement in which the service provider trains employees for certain jobs and the payor only pays when measurable results are successfully achieved within a specific time frame. Unlike other training programs, the emphasis in a PFS partnership is on “high bar” outcomes, such as job placement or retention over a defined time period.²

¹ Tomaz Cajner, Tyler Radler, David Ratner, and Ivan Vidangos, “Racial Gaps in Labor Market Outcomes in the Last Four Decades and over the Business Cycle,” (Finance and Economics Discussion Series 2017-071, Board of Governors of the Federal Reserve System, Washington, DC, 2017), www.federalreserve.gov/econres/feds/files/2017071pap.pdf.

² America Forward, *Pay for Success in the Workforce Innovation and Opportunity Act: Frequently Asked Questions*, September 9, 2014, www.americafoward.org/wp-content/uploads/2016/12/WIOA-Pay-for-Success-FAQ_FINAL-1.pdf.

This innovative funding model for workforce development requires several elements to come together to open an innovation window.³ The first is a common problem: In this case, the tight labor market in Philadelphia and concerns around economic opportunity in the community brought the partners together. The second is an innovative idea or policy: In Philadelphia, PFS had been discussed as something that might address some of the disparities in funding and create better feedback loops between the employer and the workforce system. The third is a willing partnership. Without trust and a strong working relationship, this PFS pilot between an employer and a workforce board would not have been possible.

While the COVID-19 pandemic has postponed the launch of the pilot program, this case study walks through the process and events involved in defining the problem, bringing together partners, and reaching a final agreement. It also provides important lessons learned about risk, working across sectors, and the importance of trust. Our hope is that bringing attention to this approach will spur development of new employer-driven training programs.



The emphasis in a PFS partnership is on “high bar” outcomes, such as job placement or retention over a defined time period.

³ The innovation window builds off the policy window concept formulated by John Kingdon. A policy window opens when there is an alignment of a defined problem, willing partners, and a new policy to solve the problem.

DEFINING THE PROBLEM

In understanding employer buy-in for workforce partnerships, it is important to identify the pain points in employers' workforce needs. The two major challenges that arose through this research were the need for increased digital skills and limitations in flexible funding. The need to upskill workers in response to technological changes is especially acute in Philadelphia. Research by the Federal Reserve Bank of Philadelphia shows that many workers at risk of losing their jobs to automation are already in economically precarious positions: low-wage and part-time workers, often people of color.⁴ At the same time, Philadelphia employers are struggling to find tech-savvy staff. Research from Burning Glass Technologies shows that eight out of 10 middle-skill jobs require digital skills.⁵ For Philadelphia, the intersection of the digital needs of employers and the lack of tech training for workers hampers economic growth and puts the future of the region at risk.

In addition to this quantitative research, the Federal Reserve Bank of Philadelphia conducted a series of listening sessions with regional employers to understand areas of concern and risk for human resources managers. The employers unanimously agreed that one of the pressing needs in the 21st century economy is digital skills.⁶ These vary greatly from employer to employer but often include a mix of digital literacy and proficiency in understanding how digital platforms and products are utilized in the workplace.

⁴ Lei Ding, Elaine W. Leigh, and Patrick T. Harker, *Automation and Regional Employment in the Third Federal Reserve District* (Philadelphia: Federal Reserve Bank of Philadelphia, 2018), www.philadelphiafed.org/community-development/workforce-and-economic-development/automation-and-regional-employment-in-the-third-federal-reserve-district.

⁵ Ben Bradley, Dan Restuccia, Chris Rudnicki, and Scott Bittle, *The Digital Edge: Middle-Skill Workers and Careers* (Boston: Burning Glass Technologies, 2017), www.burning-glass.com/wp-content/uploads/Digital_Edge_report_2017_final.pdf.

⁶ Ashley Putnam and Alvaro Sanchez, *Digital Skills for the 21st Century Workforce* (Philadelphia: Federal Reserve Bank of Philadelphia, 2019), www.investinwork.org/-/media/Files/reports/digital-skills-for-the-21st-century-workforce.pdf.



Research estimates that employers spend \$177 billion in formal training and \$413 billion in informal training. The majority of funding goes toward college-educated workers and rarely to upskilling frontline talent.

This gap could be bridged by skills development and customized training, but public funding for such programs has been shrinking nationally. Of course, employers dedicate considerable resources to recruiting and developing workers. Research estimates that employers spend \$177 billion in formal training and \$413 billion in informal training. That money, however, is not allocated evenly across all employees. According to studies by the Georgetown University Center on Education and the Workforce, the majority of the funding goes toward college-educated workers and rarely to upskilling frontline talent.⁷ For entry-level workers, training resources are provided through public workforce systems, community colleges, or the workers themselves.

Flexible funding is one of the primary challenges in the workforce system. When discussing funding, human resources managers noted that finding and onboarding talent requires considerable resources, but their primary concern was the risk of bringing on and training a new employee who may leave. As documented in several studies,⁸ turnover carries high costs,⁹ including loss of

⁷ Anthony P. Carnevale, Jeff Strohl, and Artem Gulish, *College is Just the Beginning: Employers' Role in the \$1.1 Trillion Postsecondary Education and Training System* (Washington, DC: Georgetown University Center on Education and the Workforce, 2015), <https://repository.library.georgetown.edu/handle/10822/1050293>.

⁸ Matthew O'Connell and Mavis (Mei-Chuan) Kung, "The Cost of Employee Turnover," *Industrial Management* 49 (2007): 14–19.

⁹ Amanda Newman and Jenny Weissbourd, "Cost of Turnover Tool: Experiences from the Field," The Aspen Institute, September 11, 2019, www.aspeninstitute.org/blog-posts/the-cost-of-turnover-tool-experiences-from-the-field.

productivity, backfilling positions through staffing agencies, and the additional expense of recruiting and training new employees.¹⁰ Employers rely on staffing agencies, search firms, and talent assessments to reduce that risk, but partnerships between employers and workforce boards could also help by preparing trainees for jobs specific to an employer. The question then becomes, how might workforce boards engage the private sector as a fiscal partner and share the investment in training outcomes?



Partnerships between employers and workforce boards could also help by preparing trainees for jobs specific to an employer.

BRINGING TOGETHER WILLING PARTNERS

The Federal Reserve Bank of Philadelphia's Economic Growth & Mobility Project (EGMP) was created to study issues of economic inequality and support innovative solutions, especially at the community level. In 2018, members of EGMP started work to fully understand workforce disparities in the Philadelphia region, examine different strategies, and bring together local partners, including Philadelphia Works, the city's workforce investment board, to find a solution.

As a first step, EGMP brought on Social Finance, an expert in outcomes-based financing, to conduct a feasibility study on the opportunity for a unique PFS model in the region. While the initial idea was for a multiemployer-funded model, the study found several issues that resulted in the

¹⁰ America Forward, *Pay for Success: Expanding Innovation and Performance Based Programs*, 2014, www.americaforward.org/wp-content/uploads/2016/12/PFS-in-WIOA-2-Page_Final.pdf.

decision to pursue a partnership with just one employer and Philadelphia Works. First, the study showed that, compared with a multiemployer partnership, a program with a single employer would lower risk and complexity, two of the largest barriers to employer participation. Second, funding allocated to Philadelphia Works under the Workforce Innovation and Opportunity Act (WIOA) could be used to fund PFS programs, according to WIOA legislation.¹¹

Guided by the feasibility study, the EGMP team met with regional leaders to discuss the opportunity. Philadelphia Works was familiar with prior PFS models and recognized the potential to gain much-needed flexible capital. Comcast, one of the largest private sector employers in the region, expressed interest in being part of the pilot program. While EGMP brought the partners to the table, Comcast had worked with Philadelphia Works previously, and that relationship was crucial to forming the initial agreement.

The PFS project was solidified when Philadelphia Works won a nationwide PFS transaction structuring competition, which would provide one year of technical assistance and help in negotiating the agreement for an outcomes-based funding model. The technical assistance was available through a partnership between Social Finance and Sorenson Impact Center, with funding through the Social Innovation Fund, a program within the Corporation for National and Community Service that grows innovative community-based solutions. Philadelphia Works also raised funding from the Lenfest Foundation to pay for staff time and resources to structure the project.

Comcast's human resources department took the exceptional step of committing to repay Philadelphia Works from its human resources and talent division, rather

than philanthropically, for results achieved under the pilot. Much like the employers interviewed in the Philadelphia Fed's listening sessions, Comcast indicated in the application for the competition that its largest workforce cost was related to turnover. That included internal costs for hiring and recruitment, plus spending on staffing agencies to fill a vacant job. While many corporations support workforce programs through philanthropic giving, Comcast's commitment from its human resources team demonstrates an investment in both talent pipelines and the greater Philadelphia region.

DESIGNING AND STRUCTURING THE INNOVATIVE MODEL

As a result of winning the technical assistance grant in the fall of 2018, the partners brought on Social Finance and Sorenson Impact Center to provide 12 months of project design and transaction structuring assistance to both partners. To begin the transaction structuring process, Social Finance presented the partners with ideas on five key parameters for which consensus was needed: job type, target population, relevant skills, outcomes, and measurement of the outcomes.

Early on, the partners agreed to identify a job that was in high demand and fit a job category identified by the Philadelphia Fed as opportunity occupations.¹² These jobs pay more than the national annual median wage adjusted for cost of living—over \$39,000 dollars a year in Philadelphia at the time—and do not require a four-year college degree. Thus, the program would allow individuals to achieve economic mobility and an upward career path.

¹¹ America Forward, *Pay for Success: Expanding Innovation and Performance Based Programs*.

¹² Keith Wardrip, Kyle Fee, Lisa Nelson, and Stuart Andreason, *Identifying Opportunity Occupations in the Nation's Largest Metropolitan Economies* (Federal Reserve Banks of Philadelphia, Cleveland, and Atlanta, September 2015), www.philadelphiafed.org/community-development/workforce-and-economic-development/identifying-opportunity-occupations-in-the-nations-largest-metropolitan-economies.



Another major consideration of the structuring agreement was the number of job openings that might be available. A valid criticism of many workforce programs is that participants are often prepared for roles in large numbers, but employers are not hiring. For a program even of this small scale—training 75 people over three years—there needed to be appropriate demand.

After participating in several conversations facilitated by Social Finance, the partners agreed to train potential employees for business-to-business sales roles. These roles involve building inbound sales relationships with small business customers, and associates must be knowledgeable about technology, including functions and uses, and be able to work well with the public. Selected candidates must still apply and be accepted through the existing hiring channel and must complete the in-house onboarding process after being hired.

These jobs fit the initial goals of the partners and provide transferrable skills that can benefit job seekers at Comcast and beyond. Indeed, the training program requires a mix of technical expertise and interpersonal skills, which align with many growing technology job categories.

THE FINAL AGREEMENT

In November 2019, Philadelphia Works formally announced the launch of the experimental workforce development partnership. The performance-based contract specifies that Philadelphia Works will fund the training programs and Comcast will serve as the payor, reimbursing Philadelphia Works based on two metrics: hiring and retention.

Under the agreement, Philadelphia Works will use WIOA funding to provide for the upfront cost of the training. As is typical of workforce boards, this training will be contracted

Negotiating the risk distribution is a key innovation of the PFS model. The private sector employer preferred the payback (and thus, most risk) to be higher at the point of retention, while the public sector workforce board preferred financing to be evenly split between the two milestones.

out to a training provider or workforce organization that will work closely with the partners during the course of the pilot. Comcast will validate that results have been achieved through internal data on hiring and retention, providing payment to Philadelphia Works for those results. The feedback loop is crucial to the success of this model—to understanding that training can and should adapt to best meet the needs of the employer and the job seeker.

Two facets of the contract reflect the unique nature of this PFS project and are worth noting.

First, Philadelphia Works became a payee for Comcast, functioning as a staffing agency might. Since the partnership is with Comcast's human resources department and not its philanthropic arm, the agreement had to be reviewed and approved by each entity's controller or chief financial officer.

Second, the distribution of risk has been concisely defined. The agreement itself specifies that Comcast will compensate Philadelphia Works for the cost of training if applicants are successfully hired and retained, with 40% of compensation due at hiring and the remaining 60% paid if the employee completes six months of employment.

Negotiating the risk distribution is a key innovation of the PFS

model. The private sector employer preferred the payback (and thus, most risk) to be higher at the point of retention, while the public sector workforce board preferred financing to be evenly split between the two milestones. The 40-60 split in this agreement gave both parties confidence that the payment structure would lead to successful outcomes.

IMPACT FROM THE COVID-19 PANDEMIC

The agreement was signed at the end of 2019, but the COVID-19 pandemic postponed the project's launch. The job family identified—business-to-business sales—was previously housed at in-person facilities, but at the end of 2020, the partners started looking into virtual training and remote work for the project. Although it is impossible to anticipate all challenges, the partnership has already successfully navigated a range of unexpected circumstances.

LESSONS LEARNED

In examining the process the partners went through to create the PFS structure, we came away with a few important lessons learned.

- **Reimagine funding sources:** While we often consider new capital important, it is not required to create a PFS program. This PFS model is less about finding new capital than about fundamentally shifting existing capital. That means rethinking how to best use money from workforce boards and WIOA dollars, as well as companies' typical spending on temp agencies or other recruitment costs.



This PFS model is less about finding new capital than about fundamentally shifting existing capital.

The goals are to restructure current funding and risk, provide a pathway for an employer to be an investment partner, and create a better feedback loop between the employer and service provider.

- **Build trust and accountability:** Working across sectors can be challenging because workforce organizations and the private sector have different goals and different processes. Thus, institutional relationships must build trust by going deeper than transactional interactions. In this partnership, pre-existing relationships built trust and facilitated accountability, willingness to experiment, and collaboration. Trust also allows individuals to act as internal champions for the project. A neutral third party can be instrumental in promoting trust among all players. In the case of the Philadelphia partnership, Social Finance, Sorenson Impact Center, and the Philadelphia Fed's EGMP were able to operate independently and without favoritism because none of the entities was funded directly by either partner.
- **Align on a shared goal of community impact:** These partners shared a goal that was more important than the money exchanged: the potential positive effect on the Philadelphia community. This big picture aspiration pushed the parties to try this untested approach to workforce development. That meant Comcast was willing to try something besides the less risky and less complicated traditional approach of using temporary agencies and staffing firms, while Philadelphia Works agreed to shoulder the cost of marketing, recruiting, and managing the program—costs that exceeded the amount paid at the back end.

FOR WORKFORCE ORGANIZATIONS: SHOULD YOU FOLLOW THIS PATH?

This PFS project offers a new model for how the private and public sectors can share risk in funding training and upskilling. If other workforce boards are interested in

implementing a similar model, they should consider the risk-to-reward ratio. While the flexible dollars provided by the employer are critical, the dollars invested by the public sector are still significantly higher. The cost of marketing, screening, recruiting, and funding the training still falls mostly on the public sector.

That said, the dollars created in this model (from the back-end payment) are not tied to specific programs, WIOA or Temporary Assistance for Needy Families (TANF) measures, or philanthropic grant reporting. The flexible dollars provide an opportunity for a workforce board or organization to scale the program, apply the model to another employer, or provide wraparound supports, such as stipends to job seekers who may struggle to stay in training for a long period of time without any form of income.

A model of this nature requires more than just flexible funding. It also requires dedicated time and staff, an appetite for risk from both parties, and a committed regional employer that is willing to think outside the box on recruiting, training, and skill development. Philadelphia Works has a unique advantage over other workforce boards in that it is a 501(c)(3) nonprofit that both grants and receives funding. It also blends WIOA and TANF dollars at its sites.

For other workforce boards or organizations considering a similar PFS structure or outcomes-based funding model with an employer, we recommend the following suggestions:

- 1. Take the time to find the right partners:** An agreement of this nature requires an employer partner that is committed in both staff time and resources, not to mention the greater community impact. A neutral third party can assist in the negotiations.

- 2. Be flexible and patient:** Contrary to many theories of change, not all innovative projects happen quickly. Coming to a common understanding of the work and the project's goals is critical to building trust between partners. That process takes time, flexibility, and patience.

- 3. Find an employer partner that understands workforce development:** Many employers may not understand the benefits of the workforce organization or workforce community. In the Philadelphia model, Comcast's previous relationship with the workforce board made the company more open to the initial conversation and more flexible in the long run.

- 4. There is no silver bullet:** Innovation is not a one-size-fits-all paradigm. Within each agreement, the training will have to be customized to the employer. As much as we would like to copy and paste a model like this, workforce boards must be patient and intentional about the conversations with prospective partners about needs, costs, and risks.

- 5. Be willing to start small:** In many innovations or pilots, the initial training class could be only five to 10 people, depending on the employer's hiring needs at the time. This approach may seem small, but it will help spur larger partnerships and trust with other private employers. By starting with one job family and one employer, Philadelphia Works was able to work with Comcast with an eye toward addressing other hiring needs in the future and elevating the model to other regional employers.

This case study examined an innovative approach to workforce training that used a PFS model in the Philadelphia region. The innovation window outlined prior brought together Philadelphia Works, a regional workforce board, and Comcast, a large local employer that needed

skilled workers, to launch a new approach to funding workforce programs. With help from neutral third parties, the two partners defined a pilot program that would allow individuals without college degrees to receive training for jobs that pay above the local median wage. Comcast agreed to be a back-end payor when each trainee fulfilled certain requirements, including staying in the job for six months. While the economic disruptions caused by the COVID-19 pandemic delayed full implementation of this program, the partnership could ultimately serve as a roadmap for others.



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Ashley Putnam is the director of the Economic Growth & Mobility Project (EGMP), a strategic initiative of the Federal Reserve Bank of Philadelphia dedicated to promoting equal access to economic opportunity. Before joining the Bank, Putnam served as the economic development advisor for the Mayor's Office of Workforce Development in New York City.


10

A GRAND CHALLENGE TO REINVENT WORKFORCE DEVELOPMENT

/ DR. ANGELA JACKSON /

When Tracy Bledsoe’s children reached school age, she decided to reenter the workforce. “I submitted probably over 100 applications, and no one would call me back,” Bledsoe recalled in a recent webinar. When she finally did get an interview, the interviewer told her that her previous workforce experiences did not matter in the current job market. “I [felt] crushed, doubting myself and thinking I didn’t have anything to offer.”

At a neighbor’s suggestion, Bledsoe went to her local American Job Center, one of more than 500 workforce development boards in the U.S. that provide free help

Even before the COVID-19 pandemic hit at the beginning of 2020, 5 million young adults in the U.S. were disconnected from stable career pathways, while 7.6 million jobs went unfilled.

to job seekers. She began taking workshops to develop her interviewing and workplace skills; then she began volunteering at the center to help other people develop their own skills. Today, Bledsoe is a business services specialist with Goodwill Industries of Upstate/Midlands South Carolina and an expert on workforce development. “I wanted to help people,” she said. “I wanted to make a difference and feel worthy.”

THE OPPORTUNITY DIVIDE

Job seekers today face one of the most challenging workplaces in generations. Even before the COVID-19 pandemic hit at the beginning of 2020, 5 million young adults in the U.S. were disconnected from stable career pathways, while 7.6 million jobs went unfilled.¹ Millions more Americans have not been trained effectively for the 21st century workforce, especially in the fastest-growing sectors of the economy. Today, 44 million Americans lack the skills, credentials, and networks they need to earn enough income to support themselves and their families.² Many have no way of accessing the information, skill

¹ Martha Ross and Nicole Bateman, “Millions of Young Adults Have Entered the Workforce with No More Than a High School Diploma,” Brookings, January 31, 2018, www.brookings.edu/blog/the-avenue/2018/01/31/millions-of-young-adults-have-entered-the-workforce-with-no-more-than-a-high-school-diploma.

² Michelle R. Weise, Andrew Hanson, Allison Salisbury, and Kathy Qu, *On-Ramps to Good Jobs* (Strada Institute for the Future of Work and Entangled Solutions, 2019), www.stradaeducation.org/report/on-ramps-to-good-jobs.

building resources, credentials, and networks that enable success in today's economy.

This mismatch between the needs of the workplace and the skills of U.S. workers has contributed to a substantial decline in economic mobility. In 1980, more than 90% of Americans earned more money and enjoyed higher standards of living than their parents or guardians. Since then, that percentage has dropped to 50%.³ The American dream of economic and social advancement feels unachievable for far too many people.

Many factors have contributed to this decline in economic mobility, but a major factor is the influence of family income on educational outcomes. Only 12% of students from the bottom 40% of households by income who were born in the 1980s earned a bachelor's degree by age 25, compared with 60% of students born in the top 20% of the income distribution.⁴ Social and economic forces limit access to opportunity for large segments of the population.

Ongoing changes in the workplace will widen this opportunity divide. As many as half of all jobs could be lost to automation in the coming years.⁵ The jobs that are being lost have been disproportionately occupied by those who have not earned a postsecondary degree, compounding downward pressures on incomes.

COVID-19 has made all these trends worse. In the first four months of the economic disaster caused by the pandemic,

more than 50 million Americans filed unemployment claims.⁶ This spike in job losses will eventually turn around, but the impact on the labor market is likely to increase inequality and accelerate automation. Early data shows that 86% of layoffs due to COVID-19 have hit workers making less than \$40,000.⁷

The systemic inequities built into our economic and workforce systems disproportionately impact people of color. Communities of color have long endured employment discrimination, occupational segregation, and economic exploitation. Job losses to automation, for example, most significantly affect individuals with lower education levels, and people who identify as African American/Black or Hispanic/Latinx are less likely than their peers to achieve more than a high school education in the U.S. Moreover, people of color have suffered from proportionately more disease and death from the pandemic, and they have lost their jobs at higher rates than other population groups. The economic and social intersections of race, gender, age, education, and geography place people of color at especially high risk for job loss and reduced economic mobility.

THE FUTURE OF WORK GRAND CHALLENGE

We cannot wait years to design and test new solutions to prepare workers for living-wage jobs in the labor markets of today and tomorrow. Employers need faster and more agile ways of training people in the skills and behaviors that predict performance in the workplace. At the same time,

³ Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang, "The Fading American Dream: Trends in Absolute Income Mobility Since 1940," (NBER Working Paper No. 22910, Cambridge, MA: National Bureau of Economic Research, 2016), www.equality-of-opportunity.org/papers/abs_mobility_paper.pdf.

⁴ Fabian T. Pfeffer, "Growing Wealth Gaps in Education," *Demography* 55, nos. 1033–1068 (2018).

⁵ Mark Muro, Robert Maxim, and Jacob Whiton, *Automation and Artificial Intelligence: How Machines Are Affecting People and Places* (Washington, DC: Metropolitan Policy Program at Brookings, 2019), www.brookings.edu/research/automation-and-artificial-intelligence-how-machines-affect-people-and-places.

⁶ Jack Kelly, "Nearly 50 Million Americans Have Filed for Unemployment—Here's What's Really Happening," *Forbes*, July 9, 2020, www.forbes.com/sites/jackkelly/2020/07/09/nearly-50-million-americans-have-filed-for-unemployment-heres-whats-really-happening.

⁷ Jeanna Smialek, "Poor Americans Hit Hardest by Job Losses Amid Lockdowns, Fed Says," *The New York Times*, May 14, 2020, www.nytimes.com/2020/05/14/business/economy/coronavirus-jobless-unemployment.html.

*The **immediate goal** of the Future of Work Grand Challenge is to train and place 25,000 workers displaced by automation and COVID-19 into living-wage, high-growth jobs.*

*The **ultimate goal** is to support 12 million Americans in the workforce and ignite a movement that will fundamentally reshape workforce development and the economy of the future.*

employees need faster and more agile training solutions that they can access directly or via independent workforce preparation organizations. To optimize limited resources and time, training solutions need to be more flexible and accessible offline, in addition to online. These solutions need to be affordable, especially for those who depend heavily on training and essential supports like transportation and child care benefits to succeed in living-wage jobs. Employers, entrepreneurs, and policymakers must prioritize the people most affected by workplace challenges to design solutions that work for everyone.

To meet the immediate need for change, New Profit—a venture philanthropy organization that has backed more than 130 social entrepreneurs with funding and strategic support over the last 20 years to advance equity and opportunity in America—has been seeking new ways to leverage philanthropic giving and connect it to workplace outcomes. In collaboration with the XPRIZE Foundation and MIT Solve, New Profit launched a Grand Challenge designed to generate and identify innovative solutions that will have a substantial effect on workforce development. The immediate goal of the Future of Work Grand Challenge is to train and place 25,000 workers displaced by automation and COVID-19 into living-

wage, high-growth jobs. The ultimate goal is to support 12 million Americans in the workforce and ignite a movement that will fundamentally reshape workforce development and the economy of the future.

New Profit and its partners launched the Grand Challenge to incentivize innovators from around the world to create solutions for displaced workers to find and keep good jobs. The Challenge is designed to help the most displaced workers train for, find, and retain living-wage jobs while cutting standard training times by more than 50%. Our strategy is differentiated in large part by engaging directly with workers across the lifecycle of the competition, from design to execution to solution selection. New Profit's hypothesis is that employers, employees, researchers, technologists, and funders are misaligned, which creates labor market failures that constrain the ability of workers to learn new skills at scale at a low cost. This is despite the growing appreciation for the importance of accelerated learning programs and career wraparound supports to worker success. New Profit sees the Grand Challenge as a more leveraged philanthropic strategy than grants to slow-to-scale nonprofits or high-risk investments in startup companies.

The Grand Challenge competition format has the potential to deliver impact for a fraction of the cost of alternatives. In traditional philanthropy, a grant is based on a program plan and is typically made before outcomes occur. With the Grand Challenge, solution providers do not receive grants until they have successfully trained workers. To be considered for prize funding, each proposed solution is required to show that it has successfully trained and placed 500 workers in living-wage jobs. This pilot field testing allows proposed solutions to be compared on a level playing field under similar conditions.

The most promising solutions generated by the Grand Challenge are being tested by six workforce development boards across the country:

- [Capital Workforce Partners](#), a Hartford, Conn. nonprofit that helps individuals overcome barriers to employment and works to close the skills gap in the local labor market to meet employers' hiring needs
- [Hampton Roads Workforce Council](#), a Southeastern Virginia service provider that develops strategic workforce development solutions to help qualified workers identify job openings and training opportunities
- [MassHire Central Region Workforce Board](#), a Worcester, Mass. organization that provides career development services to meet the needs of diverse employers and job seekers in more than 40 communities
- [San Diego Workforce Partnership](#), an agency that funds and delivers programs that empower job seekers to meet the current and future workforce needs of employers in San Diego County, Calif.
- [West Michigan Works!](#), in partnership with [Michigan Works! Southwest](#) and [Michigan Works! Berrien, Cass, Van Buren](#), which engages with employers, educators, and community organizations to launch workforce development efforts that meet the region's talent needs
- [Workforce Solutions Greater Dallas](#), a provider of competitive solutions that help employers find quality workers and connect people with quality jobs

These six workforce development boards, which collectively serve more than 200,000 workers who have been displaced by the COVID-19 pandemic, are piloting approximately 20 solutions across their regions. Pilot projects will be designed to demonstrate the effectiveness of Grand Challenge winner

technologies in large-scale, real-world use cases. Solutions that deliver the best labor market outcomes using methods that are highly repeatable and financially sustainable will be eligible for scale-up investments and support, with a third-party independent partner evaluating outcomes.

Competitions have historically produced large impacts relative to investments. A well-known example is the \$10 million Ansari XPRIZE, which led to \$120 million in investment by competing teams and the launch of what is now a \$3 billion private space industry. The Future of Work Grand Challenge is expected to multiply the value of the initial research and evaluation by a factor of 10 to 20. A typical foundation grant is unable to have this type of reach.

A Grand Challenge approach offers several other benefits. First, it can surface many potential solutions to large and complex problems, and the energy generated in the process can motivate people to implement and disseminate these solutions. Second, it can draw national attention to the problem being addressed. Third, it can incentivize and capitalize solutions that work for the families and workers most affected by centuries of unfair policies and practices.

At New Profit, we see the value in incorporating complementary approaches to tackle workforce challenges, which is why we created an unprecedented collaboration between two former competitors in the social change prize space. XPRIZE, a nonprofit that designs and conducts large-scale competitions, is focusing on new and dramatic solutions that will enable Americans to retrain quickly and efficiently.⁸ MIT Solve, an initiative of the Massachusetts Institute of Technology to foster social innovation, finds

⁸ "Work Reimagined," XPRIZE Foundation, accessed February 19, 2021, <https://rapidreskilling.xprize.org/prizes/rapidreskilling>.

best-in-class training programs from around the world that enable workers to secure and keep good jobs.⁹

The Grand Challenge is supported by major funding from Walmart.org and Strada Education Network. They are joined by additional funders, including Accenture, The Annie E. Casey Foundation, Comcast, Imaginable Futures, JPMorgan Chase & Co., Morgridge Family Foundation, [and more](#).

AN EMPHASIS ON PEOPLE OF COLOR

New Profit believes it is critical to invest in entrepreneurs of color who are proximate to the problems to be solved. To create the strongest possible innovator pool, the Grand Challenge included a targeted recruitment campaign to generate applications from Black, Latinx, and Indigenous entrepreneurs and those most impacted by underlying workforce development problems. Workshops are helping innovators form diverse teams and build prototypes, while also helping existing teams form and refine solutions that meet the objectives of the Challenge. Our goal is to field more than 500 applicants, with 40% or more proposals submitted by teams led by entrepreneurs of color. Teams are selected based on potential impact, feasibility, scalability, innovation, leadership, and equity orientation.

We at New Profit believe that the equity-centered approach to the Grand Challenge is what makes it completely different and relevant, and most importantly, gives it the best chance of achieving real impact. We created a partnership profile centered on workers and leaders of color, leveraging our history of investments in leaders of color. We then articulated this value proposition to key funders and innovators to obtain their feedback and ultimate agreement. I conducted informational interviews with 38 potential partners—17

employers, 7 funders, 2 research partners, and 12 thought leaders—representing ethnically and racially diverse technologists, low-income students, and workers. These interviews helped to build awareness of the Challenge in communities of color and assisted with targeted outreach to organizations like Black Women Talk Tech, LTX Fest, and The Plug. In addition, I interviewed organizations serving low-income and entry-level workers of color and leading African American and Latinx workforce technology investors, and established partnerships with leading organizations that advocate for diversity in technology, including Smarter in the City, Silicon Harlem, Digital Diversity Network, Black Battery Recharge, and Harlem Capital. As a result of these efforts, the partner networks and expert advisors for the Grand Challenge grew to include diverse partners across race, class, and socioeconomic backgrounds.

We have further driven resources and support to African American, Latinx, and Indigenous entrepreneurs by establishing partnerships with accelerators that identify, develop, and promote underrepresented entrepreneurs, such as Black Women Talk Tech, The Plug, and Camelback Ventures. We connected the most promising innovators with accomplished mentors of color, nurturing teams that are closest to the experiences of disinvested workers. To generate the strongest innovator pool, we prioritized entrepreneurs of color who create accelerated learning technologies designed to benefit workers whose jobs are vulnerable. In doing so, we are not only raising awareness of future work challenges but are doing so in the context of the populations most affected by these challenges.

We have leveraged data, findings, and recommendations to broker new partnerships between the solutions and teams that deliver the highest returns on investment. We are publishing findings through media channels established in the first year of the Grand Challenge, and we are working

⁹ “Reimagining Pathways to Employment in the US Challenge,” MIT Solve, accessed February 19, 2021, <https://solve.mit.edu/challenges/reimaginingpathways>.

with legislators at the state and federal levels to lobby for new policies within economic recovery efforts that incentivize and support solutions for a more equitable and inclusive workforce of the future.

To ensure accountability and coordination, we established a central team of key leaders to ensure that diverse voices are heard and problems are quickly and efficiently resolved. New Profit, XPRIZE, and MIT Solve have decades of combined experience achieving social impact through multiple and diverse partners. If solutions developed by the Grand Challenge can deliver well-trained applicants faster and more efficiently than existing or alternative methods, we expect that the cost savings on recruitment and retention and the revenue increases associated with higher productivity will spread these innovations rapidly throughout the economy.

The Grand Challenge, which is being led by a team of entrepreneurs, investors, designers, employers, and labor market experts, has three especially innovative dimensions.

1. A focus on outcomes

Historically, the workforce training market has relied heavily on approaches backed by limited, if any, research. By focusing on employment outcomes and working with workforce boards, the Grand Challenge will bring a new rigor to determinations of success and result in far better leverage of philanthropic dollars.

Strong outcomes thinking needs to play a central role in identifying the ideas that are most valuable and bringing them to scale. In addition to providing instant credibility to the validated solutions, this orientation provides the context for a rigorous social experiment by combining a large number of operating units, centrally managed

operating procedures, and a wealth of historical and current data about employee training, supervision, performance, and experiences. Since our workforce board partners work with a high volume of job seekers, they can design trial validations to compare job seekers who receive or do not receive a particular solution. This would then eliminate many influences that might confound the results of the competition and greatly increase the credibility of a successful solution for employers. Another benefit of working with workforce boards is the possibility of testing solutions in multiple work contexts and sectors (e.g., hospitality, health care, and information technology).

By conducting the Grand Challenge in collaboration with workforce boards, our solution designers can examine variation in outcomes using the workforce boards' data management systems. By thoughtfully analyzing a solution's impact, we will receive targeted information to improve each solution and make it more broadly applicable.

The partnership with workforce boards increases the likelihood that successful solutions will achieve large-scale adoption. Once a well-designed trial demonstrates the value of the solution, workforce boards will have considerable self-interest to incorporate it into their organizations, resulting in a scale that most nonprofit innovations never achieve.

2. The involvement of workforce development boards

Another innovative feature of the Grand Challenge is the close involvement of workforce development boards funded by the U.S. Department of Labor. Millions of displaced workers interact with workforce development boards each year—in part because workers who apply for unemployment insurance often are connected with regional workforce boards—and in the wake of COVID-19, the number of workers served by workforce boards has grown substantially.



The Grand Challenge will help modernize workforce development board practices and add accountability goals to their efforts to train people for living-wage jobs.

By facilitating connections among workers, employers, and third-party vocational training providers, these boards have significant influence over workforce systems, especially if they have the tools to maximize workers' potential instead of simply getting people back into low-skilled and low-paying jobs.

In the past, workforce boards have often struggled to provide the job placement support their job seekers require. Most do not have convenient or consistent methods to maintain risk capital in their budgets. Many have been training people for occupations that do not offer living wages, upward mobility, or growth trajectories. This leaves valuable insights isolated, novel training solutions without prospects for widespread adoption, and costly efforts duplicated. Most importantly, it puts workers' economic opportunity at risk.

The Grand Challenge will help modernize workforce board practices and add accountability goals to their efforts to train people for living-wage jobs. Partnering with MIT Solve and XPRIZE will ignite rapid innovation and experimentation, sizably increase venture and philanthropic capital to create a new workforce training market, and produce lessons learned that boards can apply toward the job seekers they serve. The result will be new data, research, and outcomes related to training completion, job placement, wage increases, employment retention, return on investment, and

more. Key performance indicators and return on investment calculations will facilitate the sharing and publication of aggregate outcomes data from workforce board partners.

Since the beginning of the COVID-19 pandemic, many workforce development boards have taken their services online. To increase the likelihood of success, we have focused on solutions that can be delivered remotely, so that teams can deploy their training and job placement support anytime and anywhere, while aligning training to meet the needs of local employers.

At the conclusion of the project, our partners are planning to develop a "how-to" guide detailing critical aspects of leveraging technologies to modernize and scale workforce services. The guide will provide strategic advice on scaling strategies and a roadmap for dissemination across the 538 workforce development boards in the U.S. It will coordinate learnings and outcomes from the active pilot programs and develop a web-based playbook. This playbook will include aspects of identifying, selecting, piloting, and scaling technology innovations used to support various services, including reskilling, upskilling, connection to jobs, and other services accessed via the public workforce system. In addition, New Profit is leveraging its policy arm, America Forward, and key members among its coalition of 100-plus social entrepreneur-led organizations on nonpartisan state and federal policy engagement based on Challenge outcomes.

3. The XPERTS worker advisory board

The third major innovation in the Grand Challenge is the establishment of a worker advisory board known as the XPERTS Cohort. Accenture and Goodwill Industries are engaging 50 frontline workers to elevate the voices of those most impacted by the future of work and unlock

MEET THE XPERTS: COHORT 1 AT A GLANCE

31
XPERTs

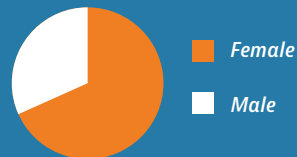
AGES 21-68
58% are between the ages of
30-49 (largest age group
for the cohort)

18
Industries

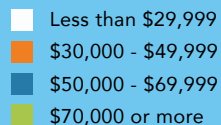
65%
of XPERTs
identify as
Black or
Hispanic/
Latinx

The XPERTs
come from
23 cities,
across
11 states

Gender Identity



Income



The **#1 reason** XPERTs
joined the board is
to help others;
the **#2 reason** is to learn
new skills to help find /
improve employment

42%
of XPERTs were significantly
impacted by COVID-19
(laid off, furloughed, income
reduced, more responsibili-
ties at work, etc.)

Education

61%
Less than a Bachelor's Degree
26%
Bachelor's Degree
13%
Master's Degree

solutions that would otherwise remain inaccessible. The involvement of people like worker advisory board member, Tracy Bledsoe, can help ensure that solutions effectively address the needs of communities and workers. In this way, the Grand Challenge can leverage participatory worker-centered practices to ensure that winning solutions effectively address the needs of underinvested communities and workers.

About two-thirds of the XPERTs identify as Black or Hispanic, and about 60% have less than a bachelor's degree (see figure). They are working directly with solution prototype teams to strengthen the efficacy and impact of proposed solutions while also providing counsel to judges to shape selection decisions. The XPERTs Cohort is meant to integrate frontline workers into future of work solutions, prioritize worker voices, and benefit the XPERTs by connecting them to professional development support and building their technical skills. The XPERTs are not simply engaged in the work—they are integrated into it.

A PROPORTIONAL RESPONSE

Employers struggle to fill millions of living-wage jobs each year due to a lack of qualified applications for those roles. Meanwhile, millions of workers lack the access and opportunities to build skills they need to thrive. Workforce development must change to satisfy employer demands for qualified talent while centering on the needs of workers. New ideas are essential if workforce development is to become dramatically more effective and scalable, especially in serving populations and communities that have been underserved in the past.

The nation needs a response proportional to the crisis it is facing. The Grand Challenge is that response. By bringing together entrepreneurs, workers, employers, policymakers,

Original illustration created by Accenture

and workforce leaders, the Grand Challenge will ignite rapid experimentation, spur innovation, and begin to rebuild an economy and a society that works for everyone.



Dr. Angela Jackson is a managing partner at New Profit, a venture philanthropy organization. She recently launched the Future of Work Grand Challenge, an initiative to rapidly reskill 25,000 displaced workers into living-wage jobs in the next 24 months. Dr. Jackson is the former founding executive director of the Global Language Project.



11

SAVE ON RETENTION, BUILD EQUITY

/ DR. ZIA KHAN /

The year 2021 is a pivotal transition point. The COVID-19 pandemic, and the resulting economic and social crises, have led to a great reveal of systemic inequities—including dramatic disparities in economic security and opportunity.

Designing our response will bring us face to face with hard choices. At the same time, though, there’s hope that society’s greater awareness of these challenges will create the window for bolder solutions that set the stage for an equitable recovery.

As the economy transforms beneath our feet, helping people who have been disproportionately affected get back to work and stay in their jobs will determine our success or failure.

Central to that recovery is employment. As the economy transforms beneath our feet, helping people who have been disproportionately affected get back to work and stay in their jobs will determine our success or failure. Meanwhile, state and local governments are facing extraordinary financial pressures; more than ever, we should look toward opportunities to draw in the private sector as a collaborator in social change.

It’s been a decade since The Rockefeller Foundation helped to bring Pay for Success to the U.S. Though traditionally a tool for governments to drive policy goals, outcomes-based funding strategies have a role to play in helping to usher in better workforce models. These models were gaining traction before the public health and economic crises; in the recovery to come, their benefits will be even more important.

THE HIGH PRICE OF ENTRY-LEVEL TURNOVER

Even prior to COVID-19, annual turnover among employees across the retail, food, and accommodation sectors was 64%. In a staff of 100, employees typically quit or are fired 64 times overall over the course of a year. Some employers have turnover of up to 200% among entry-level employees.¹

¹ FSG, *Best in Class Strategies for Entry-Level Employee Retention*, October 2016. This report draws from U.S. Bureau of Labor Statistics, 2015 turnover data.

Turnover among entry-level employees often results from immense pressures of scarcity that employees face outside the workplace.² Given their “overtaxed bandwidth,” many employees living in poverty are overburdened such that they do not have the necessary safety net to fulfill their responsibilities when, for instance, child care falls through, a car breaks down, or an elderly parent is unwell.

Employees who quit or are fired due to the consequences of poverty clearly lose valuable opportunities to improve their economic situations. What is the cost of turnover to employers? Surprisingly, there’s limited published, formal research addressing this question, and businesses that rely on entry-level workers largely consider turnover to be inevitable.³

For the past few years, The Rockefeller Foundation [helped to fund research](#) in collaboration with Social Finance, the NYC Center for Youth Employment, and JobsFirstNYC to better understand the impact of turnover. Through detailed quantitative interviews with small and midsize employers in New York City and Memphis, we found that a single instance of employee turnover costs an average of \$3,300.⁴ Employees frequently simply stop showing up with no notice, creating additional burdens for employers.⁵ This

² *In Scarcity: Why Having Too Little Means So Much*, (New York: Times Books, 2013), Sendhil Mullainathan and Eldar Shafir write about the impact of scarcity of a broad array of resources on human behavior. They argue, “Poverty means scarcity in the very commodity that underpins almost all other aspects of life. ... The poor are not just short on cash. They are also short on bandwidth.” (p. 150).

³ The strongest public source of analysis on the cost of turnover we found was in Boushey and Glynn’s report *There Are Significant Business Costs to Replacing Employees*, which reviewed 11 studies with 30 individual case studies on the cost of employee turnover. They estimated the cost of turnover overall is approximately 20% of annual salary, though the estimates vary from 6% to >200%; for employees making less than \$30,000, the cost of turnover is typically 16%. Heather Boushey and Sarah Jane Glynn, *There Are Significant Business Costs to Replacing Employees* (Center for American Progress, November 16, 2012), <https://cdn.americanprogress.org/wp-content/uploads/2012/11/16084443/CostofTurnover0815.pdf>.

⁴ The study found that costs of turnover ranged between \$1,500 and \$5,000. The most significant driver of cost was typically onboarding; loss of productivity and expenditures associated with recruiting and hiring also contributed to the costs of turnover.

⁵ Andrew Babbitt and Jake Segal, *Making Entry-Level Talent Stick* (Social Finance, May 6, 2019), www.socialfinance.org/resource/making-entry-level-talent-stick.

A single instance of employee turnover costs an average of \$3,300.

cost adds up—and it disproportionately impacts smaller businesses, where economies of scale are less helpful in reducing the burden of turnover.

While employers have not typically defined these types of challenges as falling within their purview, developing strategies to support employees in overcoming barriers outside the workplace could yield not only benefits for employees but also significant cost savings for employers by reducing turnover.

PAYING FOR EMPLOYEE SUPPORTS— IF THEY SUCCESSFULLY IMPROVE RETENTION

One of our grantees, [WorkLife Partnership](#), is a pioneer in exploring the impact of robust, workplace-based supports on employee retention. It offers individualized guidance and resources to help workers navigate challenges ranging from transportation to housing in order to reduce employee stress and boost engagement. WorkLife Partnership also helps workers utilize preventative care, understand their health benefits, and, in some cases, access small-dollar loans to prevent unexpected expenses from triggering financial crises.

Piloting these tools is a good use of philanthropy, but philanthropy is too small to fund these solutions at scale without partners. To bring employee supports to a national scale, it is essential to develop a sustainable funding mechanism. What if the resources currently spent by

employers managing high turnover could be reallocated to preventing turnover in the first place?

It's a reasonable enough idea. But businesses are (fairly) hesitant to make a significant investment in employee supports, since they might not work.

Pay for Success lets employers offload that risk. **Using outcomes-based funding models, employers can engage service providers to test intensive support programs—and only pay for them if they're successful at improving retention.** As Jordan Nottke, director of operations at Zuul Kitchens, observed, "Shared risk across multiple organizations strengthens partnerships as we are all striving toward the same objectives."

Following Rockefeller-funded turnover research, NYC-based nonprofit Seedco and Social Finance developed a model for simple, retention-focused Pay for Success contracts. We worked through the contracting terms in partnership with a set of small food service employers to pilot this approach. We were scheduled to launch in April 2020. The global pandemic had other plans.

Nottke explains his company's interest in the model: "Zuul is invested in our employees, and we were excited to find a partner like Seedco which was clearly similarly invested in their success. When the opportunity came along to fund the needs of our employees outside of work—something that most companies don't have the capacity to provide themselves—we saw a lot of value in providing that type of support for our employees. It was an exciting chance for us to try out several different services and only pay for the ones that were effective in achieving our objectives."

As we recover from the COVID-19 crisis, we are hopeful that ideas like this can continue to drive innovation at the intersections among workforce organizations, businesses,

and philanthropy. At Rockefeller, we imagine an equitable recovery in which results-driven programs help people obtain and retain stable employment and enable them to conquer the perils of poverty. We imagine a world in which these programs break the cycle of rapid turnover and prove their value to both employees and employers.

The time is right to scale up these models. The need is enormous. We must make sure we put forth solutions that are proven, low-risk, and cost-efficient to help people get back to work and achieve stable livelihoods and economic security. Retention-based contracts may be a useful tool to help drive an equitable recovery.



Dr. Zia Khan is senior vice president for innovation at The Rockefeller Foundation. He has served on the World Economic Forum Advisory Council for Social Innovation and the U.S. National Advisory Board on Impact Investing. Prior to joining the Foundation, Khan was a management consultant advising leaders in technology, mobility, and private equity sectors.



Emily has no pathway into an industry that is desperately searching for people like her.

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DERISKING NEW HIRE TRAINING

A NEW TALENT MODEL

/ DR. JEFF FREY + NICOLE DURHAM /

Emily, 22 years old, has just completed her bachelor's degree in computer science and hungers to work as a user experience (UX) developer. Despite earning top grades from a reputable university, she struggles to draw a direct link between her coursework and the technical and soft skills required in UX job postings. She does not have relevant professional experience, and no company gives her an opportunity to prove her skills. She considers boot camps that offer intensive training and tantalizing statistics about potential job offers, but they cost tens of thousands of dollars and are typically ineligible for most forms of financial aid. She cannot afford to take on more debt. Emily has no pathway into an industry that is desperately searching for people like her.

Prior to COVID-19, the U.S. was creating 200,000 net new IT positions each year and many more not classified as IT. The dramatic pace of digital transformation has triggered an urgent problem for employers. There is a large—and growing—gap between the number of individuals with in-demand skills and the need for talent. Some of the most pressing shortages include technologists with both the expertise to understand business needs and the digital skills to address them: programming, data management, data visualization, integration, automation, and security.

In these evolving times, public and private companies and organizations have an incredible opportunity. The acceleration of digital transformation is revolutionizing how they engage with their customers and constituents. It is making old business models obsolete while establishing and entrenching new ones. The growth and evolution of the internet, cloud and mobile computing, and access to data are creating a massive shift. Everything from manufacturing to business processes and from customer engagement to product delivery is being reinvented.

The problem is the pace of digital transformation far exceeds the pool of available talent with the requisite skills. There simply is not enough supply in the market to provide organizations with access to the resources they need. In

some cases, tech stacks are merely months old, and even the best education, training, and workforce ecosystem in the world would be hard-pressed to keep up.

Historically, there were options to bridge the skills gap. One such option was widely used across the technical landscape for years: bringing in talent from outside the U.S. through work visas. Through H-1B and other programs, companies would import tens of thousands of technologists from foreign countries to bridge the supply gap. Because of rapidly growing needs and new restrictions on work visas, this is no longer a sufficient bridge for most companies. There is a better solution: People in the U.S. have the potential to thrive as technologists if given the right training.

We must transform how we approach workforce development in technical industries. Talent Path offers a model in which rethinking incentives and risk can create a self-sustaining pathway for people from diverse backgrounds to launch successful careers as technologists.

ENERTIA'S QUEST FOR TALENT

Enertia Software, a Midland, Texas software solutions developer for the upstream oil and gas industry, needs qualified technical talent to survive. Enertia attempted to address this need by hiring qualified employees with years of experience doing comparable work. As the company grew, there were simply not enough such people available—and those who were available were expensive. Enertia realized that any sustainable, long-term solution would require incorporating inexperienced technologists who could grow with the organization. Enertia needed strong technical chops—and talent with the soft skills to communicate effectively to understand client needs.

Enertia also sought diversity. The business case for hiring



Despite the evident need, employers feel unable to take risks on new training and preparation programs with hefty price tags and unknown results.

diverse employees is well established: Companies with a strong, measurable commitment to diversity are 35% more likely to have financial returns above their industry averages, according to research from McKinsey.¹ But, while the benefits are clear, creating a hiring process that brings in diverse candidates is not easy.

THE FAILURE OF TRADITIONAL MODELS

Driven by the increased cost of a bad hire—which can add up to six figures—and high entry-level churn, many employers have gotten out of the business of training individuals who are new to the industry, strongly preferring candidates who are ready to be productive on day one. The resulting “hiring friction” is a major explanation for millions of unfilled jobs at American businesses.

Despite the evident need, employers feel unable to take risks on new training and preparation programs with hefty price tags and unknown results. Employers also worry about investing heavily in training only to see early-career employees quit and take those newfound skills to another employer that does not need to pay for the cost of their training. There is a clear need for a new model.

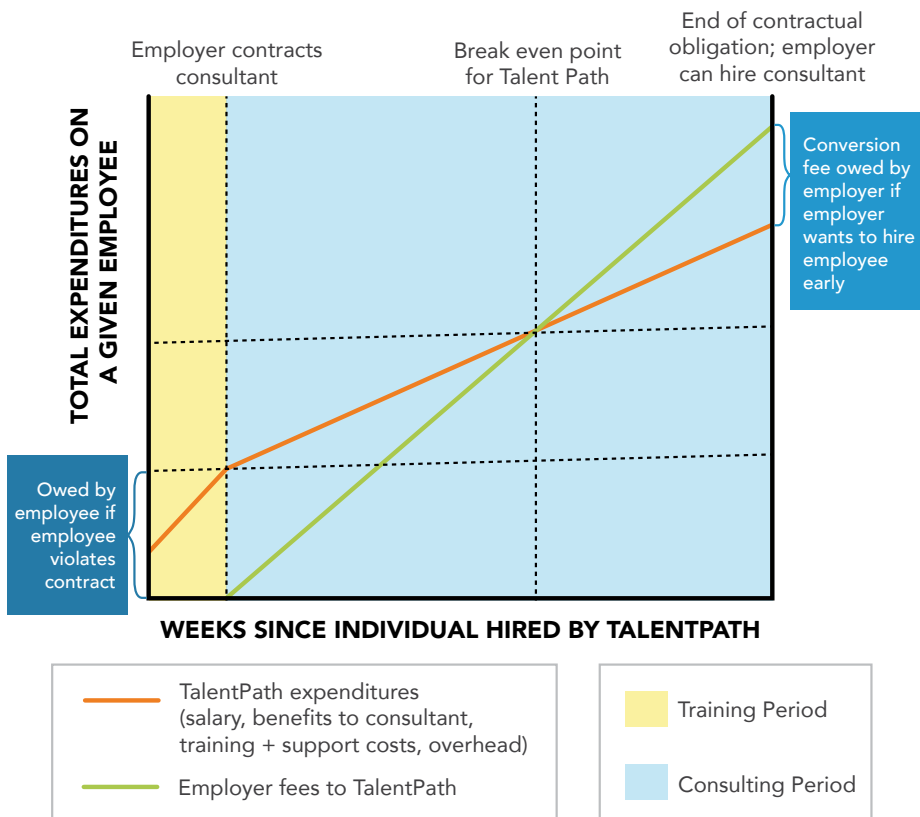
¹ Vivian Hunt, Dennis Layton, and Sara Prince, “Why Diversity Matters,” McKinsey & Company, January 1, 2015, www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters.

TALENT PATH: AN INNOVATIVE TALENT SOLUTION

Talent Path offers a different approach to the training provider, individual, and employer relationship: a single-stop solution to hiring, training, and development needs for technical positions that assumes much of the risk typically borne by individuals and by employers. Talent Path functions as a staffing firm contracted by employers to identify, prepare, and develop individuals to meet talent needs. It is a division of Genuent, one of the nation's leading technology staffing and solutions firms.

/ **FIGURE 1** /

Financial Structure of Talent Path



The basic model, as illustrated in Figure 1, is as follows:

- 1. Selection and hiring:** Talent Path conducts a rigorous process to identify individuals like Emily—aspiring technologists with potential to excel in a technical role. It customizes the selection process to meet the needs of individual employer partners and focuses on selecting women and people of color such as Emily. Selected candidates enter a two-year contract with Talent Path.
- 2. Training:** From the first day of training, Emily earns a salary and benefits. The 12-week training program is intensive and customized to the needs of employers in the areas of business, emotional intelligence, and a specific tech stack utilized by the employer so that Emily can be productive from the start. Talent Path invests \$30,000 in Emily during the training period.
- 3. Placement as consultants:** At the completion of the training program, Talent Path places Emily in a full-time role with an employer such as Enertia as a consultant. Talent Path continues to provide coaching and support to address skill gaps and troubleshoot any issues that may arise. Emily remains on Talent Path's payroll, earning full benefits and a starting salary that is well above a living wage but less than she would earn as a full-time employee at Enertia. If for any reason the placement is not a good fit, Emily returns to Talent Path's "bench" and continues to earn a salary while Talent Path helps her find a new placement.
- 4. Repayment of investment:** Enertia compensates Talent Path at an hourly rate higher than the cost of the hourly salary (plus benefits) that Talent Path pays to Emily. The company is still paying less than it would for the more senior person it would have hired otherwise (assuming it could have found such a candidate—which, for many tech

stacks, is a major assumption). Assuming Emily meets Enertia’s needs and expectations, over the course of the contract Enertia repays Talent Path’s initial investment in Emily’s preparation, and Talent Path earns a profit.

5. Fulfillment of contractual obligations: Once Enertia has completed its contract, Enertia hires Emily directly. If Enertia wants to hire her before her commitment to Talent Path is complete, the company can pay Talent Path a conversion fee to do so. If Emily quits prior to the completion of her contract, she owes Talent Path at least part of the cost of her training.

SELECTION AND HIRING

Talent Path’s selection process uncovers hidden talent in people who might otherwise be overlooked—and unlocks and accelerates that talent by taking a risk on training them.

The organization identifies high-potential people who are technically adept but in need of additional training and preparation in the form of “last-mile training.” Talent Path sources its apprentices from university partners like the University of Houston, which markets the opportunity to recent graduates from science, technology, engineering and mathematics (STEM) majors as well as other programs



By targeting groups traditionally underrepresented in technical fields, Talent Path can help address both a social problem and unmet business demand.

of study. Sourcing individuals online, Talent Path also seeks to attract veterans and career changers in addition to recent graduates. The organization looks for promising skills and backgrounds and seeks to hire a disproportionate mix of people of color and women, people whose talents have historically been overlooked or minimized. By targeting groups traditionally underrepresented in technical fields, Talent Path can help address both a social problem and unmet business demand.

Talent Path works with clients to develop and customize a multistage selection process that can involve in-person interviews and time in the office to get a picture of what the role would entail. It blends a technical and human approach to dramatically increase the likelihood of a good fit, an approach that helps achieve diversity and equity goals by highlighting the talents of historically underrepresented people. The selection process includes everything from validated assessments to group projects completed over Zoom with rapid cycles of feedback and evaluation.

After being selected, an apprentice signs a two-year contract with Talent Path. According to this contract, Talent Path commits to placing the apprentice—a commitment bolstered by the complete alignment of incentives (if Talent Path does not secure a placement, it loses its significant investment in the candidate). The apprentice commits to learning as much as possible, participating with good faith in interviews, and seeking to be a model employee. Apprentices earn while they learn, paying nothing upfront and receiving a salary from day one.

TRAINING

Like a traditional apprenticeship, Talent Path provides last-mile training on the specific digital skills, business knowledge, and soft skills employers are seeking, resulting

in reduced hiring friction and cost for employers. Its basic curriculum combines in-demand technologies, digital tools, consulting skills, and business communications. Talent Path also collaborates with each employer to create custom modules that help trainees develop the specific competencies necessary for success with that employer. Talent Path reverse-engineers the ideal entry-level employee for each client, focusing on technical chops and cultural integration.

The typical training duration is 12 weeks, varying based on client requirements. Talent Path encourages client partners to be as involved as they want to be, whether it's interviewing candidates before they even enroll in training or leaving sourcing and placement decisions to Talent Path. Upon completion of training, the apprentices become consultants, and consultants are placed with employer partners on critical projects and initiatives. In the case of Enertia, consultants created dashboards, set up automation communication based on data triggers, created input forms with validation, and tested business analyst workflows.

Elvis Alvarez reflects on his experience during training: "My technical skills were at an elevated level, but my soft skills [could be improved.] I [also] had a vigorous fear of public speaking. After going through a three-month immersive technology training program at Talent Path, I have overcome that fear. Due to the limitless amount of practice and all the honest feedback from my colleagues, my soft skills have comprehensively improved. After our focus on data science and visualization tools like Power BI and Tableau, my technical skills [improved as well]."

Talent Path partners with digital credential leader Credly so that trainees can earn badges that certify the skills they have mastered. "The tech skills Talent Path develops, from data visualization to app development, are among the most



Talent Path embraces the approach of "Try before you buy."

in-demand skills today," said Jonathan Finkelstein, founder and CEO of Credly. "By providing digital credentials to its certified consultants, Talent Path is clearly demonstrating the skills a new consultant has learned, in a way that can be quickly validated."²

Talent Path recognizes that not every hire will be the right fit for a given company and uses the training period to assess potential fit to maximize placement success. If Enertia contracts with Talent Path to fill 15 positions, Talent Path hires and trains 25 apprentices. As the training progresses, Talent Path assesses which of these individuals appear to be the best fit for the employer. Talent Path presents 20 candidates to Enertia, and Enertia selects 15. Talent Path then seeks other placements for apprentices not selected by Enertia.

PLACEMENT AS CONSULTANTS

Talent Path embraces the approach of "Try before you buy." When a new consultant begins with an employer, that employer has invested nothing in the individual's selection or training. The employer begins compensating Talent Path on an hourly basis for an individual who is prepared to hit the ground running. Once placed with an employer, Talent Path continues to mentor and upskill consultants. In the case that the employer finds that the individual falls short

² Mayuri Chaudhary, "Talent Path Announces Partnership with Credly," HR Technologist, February 27, 2019, www.hrtechnologist.com/news/learning-development/talent-path-announces-partnership-with-credly.

in a particular domain, Talent Path offers additional training and coaching targeted at closing the skill gap.

No matter the process or preparation, some hires just don't work out. If an employer is dissatisfied with something like an aspect of culture fit, it can ask at any time to replace the employee. This process provides a rare guarantee to employers that dramatically cuts the costs of turnover. Talent Path bears the downside risk for employers, which allows them to take on and test out employees who otherwise might not be considered.

In the event that a placement does not work out, Talent Path rematches the consultant with another employer if possible. If the consultant's performance renders them ineligible for a subsequent placement, Talent Path terminates the contract, and the trainee owes nothing.

From the start, Talent Path has been committed to a self-sustaining model that does not require ongoing government or philanthropic support. By building such a model, the agency has the potential to scale rapidly to meet the profound needs of both individuals and employers.

WIN, WIN, WIN

Experience to date indicates that most Talent Path contracts terminate with the individual successfully completing the two-year employment period. At this point, the employer



Talent Path bears the downside risk for employers, which allows them to take on and test out employees who otherwise might not be considered.

often hires the consultant directly for the same role or a more senior position. This opportunity is a distinguishing feature of Talent Path's model, as opposed to that of other consulting firms, which often prohibit clients from hiring their consultants for several years following the engagement. In other words, a pathway to employment at the client is a "feature" rather than a "bug" or a hindrance of the Talent Path model.

In the event that an employer wishes to hire a consultant still under contract with Talent Path, the employer can buy out the contract. In this situation, Talent Path's net profit is equivalent to that of a complete contract. This outcome is also a success all around as the consultant transitions into permanent employment and the employer retains (and often promotes) the new employee.

LOOKING FORWARD

While it is still early and completion data is limited, Talent Path is already inundated by requests from employers ranging from local companies to some of the best-known names across a range of industries. Perhaps most significantly, employers that have worked with Talent Path keep coming back.

Talent Path represents the future of hiring. With so many companies flooded with lackluster resumes and a broken market for entry-level hiring that is full of friction, employers are eager to outsource hiring risk to a partner expert in sourcing, screening, and custom-training new talent. The fact that Talent Path remains the employer of record for two years provides security for both candidate and employer during the most risky and unpredictable years of an employee's career.

Together, Talent Path and Enertia are building a world in

which employers can tap into new sources of talent without fear—and promising candidates can upskill without taking on debt. We are hopeful we can help close the widening gap between producers and consumers of talent.



Dr. Jeff Frey is the vice president of innovation at Talent Path, spearheading its efforts to bridge the gap between education and employment.

With his background as a technology executive and college faculty member, Frey interfaces with corporate clients and university partners to assist them with their future planning and vision.



Nicole Durham is a director at Enertia Software, instrumental in the branding, marketing, and relationship development of the industry's leading enterprise resource planning (ERP)

system. She has been a creative innovator for over 24 years in a variety of structural development roles, specifically in the oil and gas and financial sectors.

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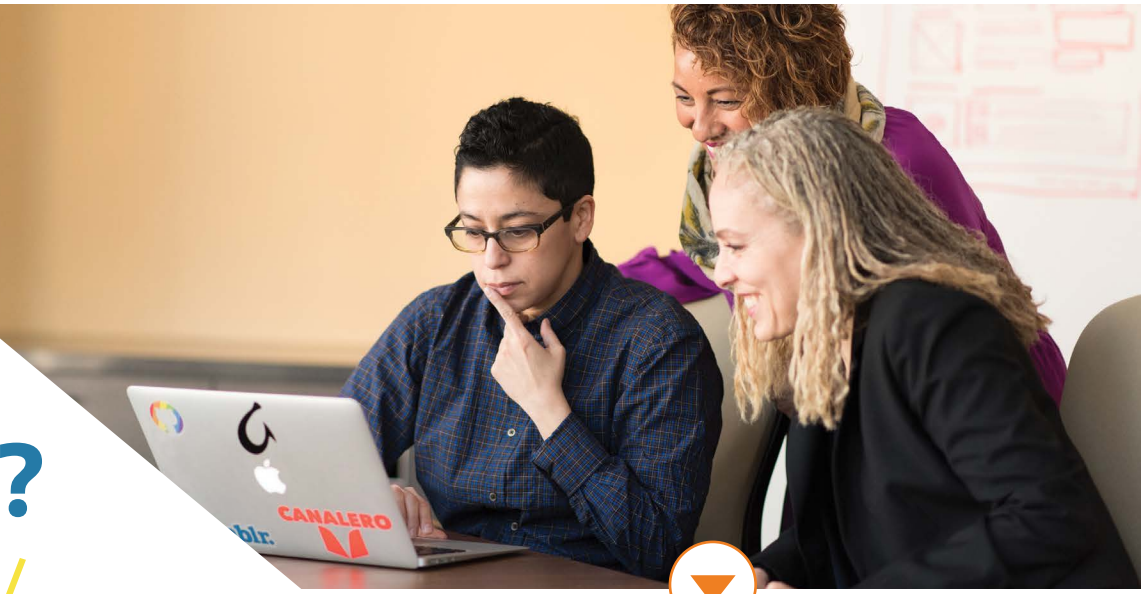
COULD OUTCOMES FUNDING WORK IN RURAL AMERICA?

/ DR. MARK REMBERT + AIDAN CALVELLI /

Since the Great Recession, rural economies have been in crisis. While urban areas were largely able to recover and grow, much of rural America has lagged. By 2019, metro employment was 10% higher than it was in 2007; rural employment remained 4% lower than its 2007 rate.¹

A major driver of this growing urban-rural divide has been the rise of the digital economy and its concentration in metro areas. From 2006 to 2018, the [digital economy grew](#) at an annual rate of 6.8%, compared with just 1.7% for the economy as a whole.² However, this digital revolution was not evenly distributed. Over nearly the same time period, [90% of all innovation sector job growth](#) occurred in just five coastal metros, and while rural Americans accounted for 15% of the country's overall workforce, they only held 5% of all the country's computer and mathematics jobs.³

¹ Analysis based on U.S. Bureau of Labor Statistics, "Current Employment Statistics," accessed February 19, 2021, www.bls.gov/ces.
² Analysis based on U.S. Bureau of Economic Analysis, "Digital Economy," accessed February 19, 2021, www.bea.gov/data/special-topics/digital-economy.
³ Analysis based on U.S. Bureau of Labor Statistics, "Occupational Employment Statistics," accessed February 19, 2021, www.bls.gov/oes.



While rural Americans accounted for 15% of the country's overall workforce, they only held 5% of all the country's computer and mathematics jobs.

These diverging types of economies have significant implications for workforce development. As the overall economy continues to digitize, with technology employment best poised for consistent growth, ensuring all Americans have the digital skills needed to hold these occupations should be a national imperative.

However, rural Americans currently face unique barriers to gaining and wielding these skills. Our current dominant models for workforce development discourage investment in effective rural approaches; because much of workforce development funding is tied to local industries, rural places that have been left out of the tech boom will not have access to programs preparing their residents for the careers most likely to be high-paying and resilient.



While outcomes-based workforce development models have shown promise as a way of unlocking new resources to support skills development, our experience has shown that rural communities have largely been left out of these opportunities because the programs are not designed with the rural context in mind.

With [automation continuing to accelerate](#) the dominance of the digital economy, and with COVID-19 both increasing technology adoption and causing an intense economic crisis, there is incredible urgency to address these barriers to rural workforce development. At the [Center on Rural Innovation \(CORI\)](#), a national nonprofit action tank empowering small towns to build digital economy ecosystems, we have seen innovative approaches to creating rural technology opportunity in the communities we work with across the country. Communities in our [Rural Innovation Network](#) (a nationwide group of committed change agents working to advance the economic future of small-town America) have identified promising pathways to solving broadband, skilling, and career placement challenges. We believe harnessing approaches such as these can provide other rural communities with a model for outcomes-based workforce development programming that expands local opportunity while enhancing the country's geographic equity.

While outcomes-based workforce development models have shown promise as a way of unlocking new resources to support skills development, our experience has shown that rural communities have largely been left out of these

opportunities because the programs are not designed with the rural context in mind. In the following section, we identify the primary challenges facing current outcomes-based approaches to rural workforce development and propose potential solutions that offer innovative paths toward more resilient rural economies.

BARRIERS AND PROMISING SOLUTIONS

BARRIER:

Mismatch between traditional outcomes-based metrics and rural economies

Federal Workforce Innovation and Opportunity Act (WIOA) funding is designed to be demand-driven, and workforce development programs that rely on this funding align programs with available jobs in a local area. This is generally a sensible way to let local labor market demand drive funding of workforce development programs. However, for rural places with declining economies, this traditional setup presents a predicament. When programs target dominant rural industries, they frequently focus on jobs that are disappearing or not future-proof—an inefficient and unsustainable funding path. Likewise, training programs are unlikely to focus on training rural workers in digital skills of the future because local demand is seen as too limited to justify funding.

Moreover, most outcomes-based financing requires a significant number of program participants to mitigate financial risk and justify transaction costs. To ensure there is sufficient return to justify upfront investments, workforce programs often depend on a wide initial funnel of workers, learners, or program participants. This setup disadvantages rural communities, which often have small (and shrinking) [populations](#), diminished local tax bases, and low population density. These barriers prevent traditional investment



Performance-based contracts are built to favor population-dense and tech-heavy urban areas.

programs from reaching the communities that could benefit greatly from a more place-based approach that sees return on investment defined in community terms. Performance-based contracts are built to favor population-dense and tech-heavy urban areas.

SOLUTION:

Harness workforce development dollars to build for the future

All too often, training providers consider only current job openings. In doing so, they may fail to prepare individuals for opportunities of the future that could be forecast using labor market data. By analyzing what industries are the most future-proof and have the potential to grow either locally or through remote work, training programs can connect rural residents with more resilient skill sets and careers. While training programs should still provide opportunity for low-wage jobs available in the rural economy, they should also seek to build digital skills to prepare trainees for higher-paying, resilient jobs of the future. Workers trained in digital skills in traditional rural sectors such as manufacturing, health care, and retail earn more and experience greater advancement than workers without these skills. Along with job acquisition and retention, trainers should consider the extent to which rural trainees apply digital skills in their jobs as a success outcome to leverage workforce development dollars to build the digital skill base of rural areas.⁴

⁴ Ben Bradley, Dan Restuccia, Chris Rudnicki, and Scott Bittle, *The Digital Edge: Middle-Skill Workers and Careers* (Boston: Burning Glass Technologies, September 2017), www.burning-glass.com/wp-content/uploads/Digital_Edge_report_2017_final.pdf.

BARRIER:

Broadband inequality and the digital divide

Many rural Americans lack two vital components necessary to access digital skilling programs and technology jobs: high-speed broadband and devices to access it. According to the [Federal Communications Commission](#), roughly 23% of rural Americans lack access to both fixed terrestrial services at 25 Mbps/3 Mbps and mobile Long Term Evolution at 5 Mbps/1 Mbps, compared with 1.5% of urban Americans without access to connections at those speeds.⁵ Even many of the rural Americans who live in “connected” areas remain unable to access the internet for tasks such as remote education due to [overestimates in data](#) and the inadequacy of 25 Mbps/3 Mbps for videoconferencing and large file uploads.⁶ In 2019, 69% of Americans living in nonmetro areas owned a desktop or laptop computer, and just 56% had a broadband subscription delivered by cable, fiber, or digital subscriber line—devices and services that are generally prerequisites for remote work and online learning.⁷

This gap between those who have access to broadband and the tools to use it and those who do not is often referred to as the digital divide, and it is particularly rampant in rural



Many rural Americans lack two vital components necessary to access digital skilling programs and technology jobs: high-speed broadband and devices to access it.

⁵ Federal Communications Commission, *2020 Broadband Deployment Report*, April 24, 2020, <https://docs.fcc.gov/public/attachments/FCC-20-50A1.pdf>.

⁶ Kevin Taglang, “Congress Tells FCC to Fix Broadband Maps Now,” Benton Institute for Broadband & Society, March 27, 2020, www.benton.org/blog/congress-tells-fcc-fix-broadband-maps-now.

⁷ Analysis based on U.S. Census Bureau, “American Community Survey 1-Year Data (2005-2019),” September 17, 2020, www.census.gov/data/developers/data-sets/acs-1year.html.



areas, along with low-income areas and communities of color. This divide reduces the value proposition of workforce development in rural places. Without this infrastructural prerequisite for digital work, programs are unlikely to devote significant resources to areas where residents will have to go elsewhere for resilient employment.

SOLUTION:

Community-based solutions for both broadband access and usage

Without adequate broadband, tech-oriented rural workforce development solutions will not succeed. As workforce programs plan for the future, those in rural areas need to incorporate plans for ensuring widespread broadband access—and making sure it is affordable. The most future-proof solution, though it requires long-term investment, is to plan for a fiber to the home network. More immediate solutions can involve the subsidized provision of laptops or other devices, setting up public Wi-Fi hotspots for cohorts of trainees, and providing grants to pay for broadband bills for those engaging in digital skills training.

BARRIER:

Scarcity of digital training and education opportunities

Effective workforce development programs often work through higher education institutions or independent skilling providers. In rural areas, both face barriers to success. A 2018 study by the Urban Institute found that 82% of Americans living in “[education deserts](#)” are in rural areas.⁸ Without nearby in-person higher education opportunities and without the broadband to connect to these programs in a remote way, these rural Americans lack an accessible chance to gain 21st century skills.

A 2018 study by the Urban Institute found that 82% of Americans living in “education deserts” are in rural areas.

Outside of traditional higher education, we have recently seen an increase in national online providers delivering skills training, massive open online courses (MOOCs), boot camps, and certifications. However, despite nominally being national, many of these providers focus their resources almost exclusively on urban areas. And when rural students do enroll in these programs, they frequently lack access to the in-person support and wraparound services that enhance educational outcomes and participant retention, including connections to other students, connections to local employers, local mentorship, and child care. Without intentional rural and community-based programming, access to these otherwise promising digital skilling opportunities is destined to be ineffective.

SOLUTION:

Embrace alternative educational models while providing additional supports

In an era where digital skills are becoming necessary, industry certifications or online boot camps can play an important role in preparing rural residents for today’s careers. Many such credentials may be strong candidates for Career Impact Bonds (e.g., [General Assembly](#)) or for other types of outcomes-based funding that align incentives across stakeholders (e.g., [FastForward](#)).

⁸ Victoria Rosenboom and Kristin Blagg, *Disconnected from Higher Education* (The Urban Institute, January 2018), www.urban.org/sites/default/files/publication/96191/disconnected_from_higher_education_1.pdf.

For programs that offer skilling services online and are expanding into rural areas, a best practice is to engage a cohort model, which can take one or both of two forms: a student-based cohort, where groups of students in a rural area jointly work through the program and benefit from shared wraparound services and cocurricular activities, and a community-based cohort, where a service is introduced in a select group of rural communities that are able to work together on marketing and outreach and collectively troubleshoot issues as they arise.

In 2020, CORI piloted a community-based cohort model that provides logistical support to a cohort of communities all offering a common set of digital skilling programs at the same time. This approach is showing initial success, with completion rates exceeding program goals and communities affirming the value in collaborating and supporting each other's progress.

Successful programs should also address the lack of support that in-person courses usually provide. For example, students may need wraparound services such as child care, transportation, financial counseling, income support, and health care support to fully engage in the training, prepare for new job opportunities, and succeed in a new job. Having a dedicated coach or counselor who can work with rural communities to connect students with these supports can drastically increase the accessibility of the programs. In Springfield, Vermont, for example, CORI deployed two AmeriCorps VISTA members to engage in inclusive outreach for economically disadvantaged individuals enrolling in our previously mentioned digital skilling program. We found that building capacity for local trainers to provide or connect students with such wraparound supports helps to remove a key barrier to entry.

BARRIER:

Dearth of rural employers hiring local tech

The unavoidable fact is rural communities have lower employer density than their urban counterparts. Additionally, the employers located in rural areas are often less involved in the tech industry. As mentioned prior, just 5% of all computer and math employment is based in rural areas (and just 1% of rural employment is in computer and math jobs).⁹ Even when we broaden the definition of tech jobs, rural areas still lag, for example, in employment in information and communications technology and tech-enabled industries.¹⁰

This local gap makes it more difficult to engage sustainable workforce development programs, simply since there are fewer local employers in resilient industries. With fewer employers come fewer opportunities for partnerships in work-based learning or hands-on training, and furthermore, fewer local jobs for graduates of workforce development programs.

It is true that many rural communities have a significant number of businesses and organizations (such as banks, hospitals, and educational institutions) that need and use a lot of technology, yet they outsource much of those services and support. Because of this outsourcing, even when local institutions could anchor tech employers they often do not, which diminishes opportunities for local employment—and diminishes opportunities for local workforce development programs tailored to these needs.

⁹ Analysis based on U.S. Bureau of Labor Statistics, "Occupational Employment Statistics," accessed February 19, 2021, www.bls.gov/oes.

¹⁰ U.S. Bureau of Labor Statistics, "Occupational Employment Statistics."

SOLUTION 1:

Facilitate remote work

A recent forecast from Global Workplace Analytics estimates that 56% of U.S. jobs are compatible with remote work (up from 40% in 2011).¹¹ The forecast suggests full-time remote work could increase as much as 30%, making one-third of jobs fully remote.¹² Rural workforce development should tap into this trend, which will require an intentional approach since remote work opportunities do not automatically mean that employers will be more willing to hire or more adept at hiring rural workers.

One promising approach is Colorado's Location Neutral Employment (LONE) program, a performance-based incentive that provides tax credits for each remote worker a company employs in an eligible rural county as part of its expansion.

SOLUTION 2:

Build and leverage coworking spaces for ecosystem density

We see tremendous promise in experimenting with building rural coworking spaces as remote working hubs. These spaces would be designed to serve employees from



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¹¹ "How Many People Could Work-From-Home," Global Workplace Analytics, accessed February 19, 2021, <https://globalworkplaceanalytics.com/how-many-people-could-work-from-home>.

¹² "Work-at-Home After Covid-19—Our Forecast," Global Workplace Analytics, accessed February 19, 2021, <https://globalworkplaceanalytics.com/work-at-home-after-covid-19-our-forecast>.

multiple organizations and would offer high-speed internet access, intensive courses, and individualized coaching services. Coworking spaces can address the problem of low population and employment density in rural areas by centralizing the tech workforce and tech trainees. This model allows employers to lease office spaces in rural communities at a fraction of the cost of office space in a downtown metropolitan area, and provide services proven to cultivate the workforces employers require.



Coworking spaces can address the problem of low population and employment density in rural areas by centralizing the tech workforce and tech trainees.

Throughout our Rural Innovation Network, we work with over a dozen rural communities with active coworking spaces that have become centerpieces of the local tech economy. For example, in Traverse City, Michigan, the coworking space and technology incubator [20Fathoms](#) provides office space, access to professional services, events, and mentoring, and has a full-time staff member dedicated to talent acquisition at local and remote tech companies. Spaces such as these can enhance a region's tech ecosystem, inspire future innovations, build a culture of entrepreneurship, and facilitate mentorship between tech employees and trainees.

SOLUTION 3:

Engage local employers in new ways to stimulate tech employment

Workforce development leaders in rural communities have the opportunity to deepen their relationships with local employers by engaging them in new ways of digital employment. Instead of only relying on job postings to

determine demand, rural workforce development leaders should engage employers like hospitals, banks, and colleges to understand how they can fulfill more of their demand for tech products and services with local talent. Approaches are needed that aim to both stimulate the demand for local tech employment and deliver the training needed to meet the demand.

SEIZING THE MOMENT FOR RURAL INNOVATION

Rural communities do face real challenges in designing outcomes-based workforce development programs that equip local residents with the skills and training needed to participate in a local digital economy. However, these challenges are far from insurmountable. With a more creative series of approaches for conceptualizing, executing, and evaluating workforce development programs, rural communities can tap into their existing talent in a way that builds more sustainable economies.

Solving this challenge in rural America's workforce development is critical for the communities and trainees themselves—and for the country, which is facing a widening geographic divide that is exacerbating inequality and stifling widespread innovation. By supporting and scaling effective programs such as those suggested here, we can move rural economies forward and develop a resilient rural workforce of the future.



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STUDENT PAYMENT



THE EMERGENCE OF INCOME SHARE AGREEMENTS

/ DUBRAVKA RITTER + DR. DOUGLAS WEBBER /

Even as the college premium for the average graduate remains robust, the downside risk of attending college—that is, the risk of not completing or failing to realize a higher income after graduation—has also increased over time. Groups of students most significantly affected by this risk are low-income/low-wealth and nontraditional college students, often people of color, who attend educational institutions (particularly for-profit institutions and under-resourced community colleges) that sometimes fail to produce good job outcomes for their students. As student loan repayment burdens have grown, so have policy efforts to provide assistance to struggling borrowers, particularly those with federal student loans. The most notable policy solutions include income-driven loan repayment (payments tied to income) and various loan forgiveness programs. Meanwhile, apprenticeships, skills-based training programs, and other lower-cost alternatives to traditional college enrollment are becoming more popular relative to costly college degrees. This is no doubt attributable to many factors, including the rising price and debt burden of traditional programs and an increased focus on



While most institutions are likely attempting to make decisions in the best interests of the student, there exists a striking lack of connection between the monetary incentives of schools and the financial outcomes of students.

recredentialing and lifelong learning (more often found outside of traditional higher education settings).

Even as outcomes for many students have worsened, the federal government accountability framework has been insufficient to protect the interests of both students and taxpayers, in part due to decades-old performance thresholds for educational institutions to maintain eligibility for federal financial aid and a changing student loan landscape.¹ While most institutions are likely attempting to make decisions in the best interests of the student, there exists a striking lack of connection between the monetary incentives of schools and the financial outcomes of students.² The recent direction of reform has not been encouraging for reducing poor outcomes for students (e.g.,

¹ For a comprehensive analysis of the entire college and student loan accountability landscape, see Robert Kelchen, *Higher Education Accountability* (Baltimore: Johns Hopkins University Press, 2018).

² As we discuss later in this chapter, maximizing labor market outcomes is not and should not be the sole objective of students or institutions in higher education. That being said, education funding is repaid in dollars, so financial outcomes of students do and should matter.

the dilution of certain guidelines meant to restrict lending for institutions that do not produce reasonable labor market outcomes for their students).³

This landscape of rising college costs, loan repayment challenges, and poor alignment of incentives between educational institutions and students/taxpayers has catalyzed a small but rapidly expanding market for alternative approaches to finance all or part of both traditional college degrees and nondegree postsecondary programs. Income share agreements (ISAs) are one such vehicle that follows Pay for Success principles of financing: Students pay a fixed share of their future income toward the ISA only if they make more than the contractual minimum income threshold and up to a maximum total amount. At the same time, education providers receive the full amount of funding from investors only if students are successful. ISAs thus may offer a mechanism to directly align the incentives of colleges with their students' objectives and outcomes, although, as we discuss later in this chapter, designing a sustainable and student-friendly ISA is quite challenging. ISAs can also push institutions to signal the value of their degrees through increased transparency around student outcomes in a market where consumers struggle to assess the value of educational programs.

By 2020, several dozen colleges and universities, as well as numerous alternative educational, vocational, recredentialing, and workforce development programs, were offering ISAs as an option for financing all or part of students' educational expenses. ISAs are offered by some institutions as an alternative to student loans, though students are typically advised to exhaust the more favorably

³ For an analysis of employment and earnings outcomes of students within the context of the recently repealed Gainful Employment rule, see Stephanie Riegg Cellini and Nicholas Turner, "Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data" (Working Paper #22287, National Bureau of Economic Research, Cambridge, MA, 2018), www.nber.org/papers/w22287.



In its simplest incarnation, an ISA is a contract that obligates students to pay a certain percentage of their future incomes (income share), up to a set number of payments, over a set period of time (payment window) in exchange for funding of educational expenses in the present.

priced federal loan options before turning to ISAs. At other institutions and training programs, ISAs are one type of education financing for students who are ineligible for federal student lending or whose programs of study do not participate in the federal loan program. Yet other education providers see ISAs as a way to extend limited institutional resources by recovering at least some of the funding provided to ISA participants to fund future cohorts of students. And some institutions arrive at ISAs for several of the above reasons and others. A few ISA providers market direct-to-consumer, without partnering with a specific educational institution, though the majority of outstanding ISAs in the space today are linked to a school-based or training provider-based ISA program.

WHAT IS AN ISA?

In its simplest incarnation, an ISA is a contract that obligates students to pay a certain percentage of their future incomes (income share), up to a set number of payments, over a set period of time (payment window) in exchange for funding of educational expenses in the present.⁴ The income share varies widely across institutions and sometimes can vary across majors; theoretically, the share could vary with the characteristics of the institution (for direct-to-consumer

⁴ In addition to the other excellent chapters in this book, please see our 2019 discussion paper for a longer and more thorough examination of theoretical and practical issues facing modern ISAs: Dubravka Ritter and Douglas Webber, "Modern Income-Share Agreements in Postsecondary Education: Features, Theory, Applications" (Federal Reserve Bank of Philadelphia, December 2019), www.philadelphiafed.org/consumer-finance/education-finance/modern-income-share-agreements-in-postsecondary-education-features-theory-applications.

ISAs) or the personal characteristics of the student. Income shares are typically expressed per the dollar value (say, \$10,000) of the funding amount, ranging from as low as 1% to as high as 20% or more per \$10,000 in the market today. All ISAs of which we are aware have fixed income shares, but the income share theoretically could take other forms including progressive, variable, or termed as a premium over an index.

Typically, participants begin to make payments once their incomes rise above a certain floor (minimum income threshold) set by the terms of the ISA and will never pay more than a set multiplier of the original funding amount (maximum cap, e.g., 1.5x). An ISA is designed such that payments are limited by the income share at all levels of income. The payment amount scales with income, with no payments due for borrowers earning less than the minimum income threshold or due to certain life events (e.g., enrollment in a course of study).



To be sustainable, an ISA must be designed with a maximum cap low enough to attract students who expect to have higher incomes post-graduation but high enough to make up for the cost of providing downside protection to students who earn little.

To be sustainable, an ISA must be designed with a maximum cap low enough to attract students who expect to have higher incomes post-graduation but high enough to make up for the cost of providing downside protection to students who earn little. That said, some programs have successfully used philanthropic or institutional resources to provide the downside income protection without necessitating a maximum cap higher than the principal plus interest on a typical parent or private loan. In select cases,

students never pay more than the funding amount (i.e., the maximum cap is up to 1x for Colorado Mountain College's Fund Sueños ISA).

There are three ways to satisfy an ISA obligation:

1. Reach the payment maximum cap,
2. Make the required number of monthly payments at the required income share (with payments due in periods in which income exceeds the minimum income threshold and not otherwise deferred), or
3. Reach the end of the payment window. Payment timelines usually combine a certain maximum length of time, expressed in months or years, with a certain maximum number of payments (e.g., a minimum of 48 payments over a maximum of 96 months).

Within an existing ISA program, parameters such as income share can vary across cohorts, rather than being fixed, and can be pegged to a given rate of return for investors. For example, the income share for future cohorts could increase if investors are consistently receiving a negative return or decrease if returns are consistently higher than anticipated. Across cohorts, institutions will sometimes also update the terms of new ISAs based on new information on how prior students are performing in the labor market. This can encompass more precise information about student outcomes or simply a change in market conditions because of unanticipated economic conditions (e.g., a pandemic).

INVESTOR CAPITAL IN THE ISA SPACE

There are various sources of funding for educational expenses, including the educational programs themselves, private investors (purely for-profit, social impact, and/or philanthropic), employers, or rarely, government entities. As



awareness of ISAs has increased, there has been substantial interest in these financial contracts from a wide variety of funders. Any investor capital used to fund the ISA is typically provided to the institution in part upfront (e.g., 50% or 75% of the ISA amount), then payments from students are passed to the investor until a certain threshold is reached (e.g., 10% return for the investor). The institution then receives any remaining payments after this point or at significant junctures (e.g., at student graduation, placement, or after a certain job retention).

Funding for ISAs can be divided into three broad categories:

- 1. Yield-based funds**, where a profit-seeking investor seeks a return on capital and expects a return of 7% to 20% (with payment multipliers in the range of 2x to 2.5x);
- 2. Evergreen funds**, which generally rely on a combination of institutional funds, philanthropic contributions, and investor capital, with returns just high enough to replenish the fund for future generations (with payment multipliers in the 1.5x to 1.8x range); and
- 3. Deferred tuition models**, which seek to recover only a share of the initial investment in the student's education—rarely the full amount—thus “stretching” grant funding by receiving future payments in exchange for education funding from participants who do well in the job market (with payment multipliers in the 1x to 1.2x range).

We can think of these incarnations as progressively more student-friendly and more challenging to scale as we move from yield-based funds to deferred tuition models.

The modern-day notion of financing investments in higher education via a share of future income is hardly new. Indeed, roughly 30% of current borrowers in the federal Direct Loan program are enrolled in one of the available income-based repayment plans for student loans.

THEORETICAL UNDERPINNINGS AND HISTORICAL CONTEXT FOR ISAs

Throughout history, society has injected public funds into higher education systems, where private markets are likely to underinvest due to risk of repayment challenges. Early public sector solutions to the market failure in higher education in the decades after World War II involved federal loan guarantees for educational expenses and featured mortgage-style fixed payments over a set period of time. Robert Shireman in 2017 detailed how income-contingent loan repayment and participation shares in future incomes cropped up in discussions of higher education funding again and again in the 1960s and 1970s at the federal, state, and institutional levels.⁵ In fact, several prominent universities—Duke, Harvard, and Yale—attempted their own versions of income-contingent payments in exchange for educational funding, none of which proved workable.

Various administrations and higher education players have revisited income-contingent repayment over the years, with a formal Income-Contingent Repayment Plan introduced for loans funded directly by the federal government (i.e., in the Direct Loan program) during the first Clinton administration. Several additional plans in the same spirit, now called income-based repayment plans, were introduced in 2007 and until as recently as 2015. All that to say: The modern-day notion

⁵ Robert Shireman, “Learn Now, Pay Later: A History of Income-Contingent Student Loans in the United States,” *Annals of the American Academy of Political and Social Science* 671, no. 1 (2017): 184–201.



The current financial aid landscape and its heavy reliance on student debt helped create an environment in which some educational programs, students, and philanthropic or profit-seeking investors saw ISAs as an intriguing alternative.

of financing investments in higher education via a share of future income is hardly new. Indeed, roughly 30% of current borrowers in the federal Direct Loan program are enrolled in one of the available income-based repayment plans for student loans. Nor are income-contingent loans purely a U.S. phenomenon; many countries have successfully designed and implemented forms of income-contingent repayment of government-provided student loans, and the most well-known program is likely Australia's.

THE RISE OF MODERN-DAY ISAs

The more recent surge in interest in, and the availability of, ISAs likely stems from the combination of at least five main factors:

1. The rapid rise in the government's student loan portfolio (both because of the increase in the number of borrowers and in their average balances), principally during and immediately after the Great Recession;
2. The increase in the student's downside risk of investing in postsecondary education because of increased prices, a rapidly changing and uncertain economy, and more unequal returns to college education (particularly for disadvantaged students);
3. The rise in income-driven repayment for government student loans and increased consumer comfort with the notion of payments based on the ex-post realizations of income;

4. The recognition of some of the unintended consequences of extended repayment terms in the federal loan portfolio, which have led to delays in life events (e.g., home ownership) for some young people; and
5. The increased political and public focus on tying the investment in postsecondary education more directly to future job prospects and income.

Altogether, the current financial aid landscape and its heavy reliance on student debt helped create an environment in which some educational programs, students, and philanthropic or profit-seeking investors saw ISAs as an intriguing alternative.

The past 10 to 15 years have seen more attempts at socializing ISAs, including by Lumni, an ISA provider that has been active in Latin America and sought to replicate its success in the U.S. A high-profile early mover in the recent burst of ISA programs was Purdue University, with its Back a Boiler ISA program launched in fall 2016. Back a Boiler garnered significant attention from industry participants, policy circles, and the general public. It was crucial in setting the stage for postsecondary educational programs to offer ISAs more widely as a vehicle for financing higher education. However, while Purdue is perhaps the most well-known provider of ISAs, the Back a Boiler program is not necessarily representative of the ISA market as a whole. For a thorough look at Purdue's program, see the chapter "Back a Boiler" of this book.

ISA USE CASES

There is considerable diversity of models and implementations in the ISA space today; no two ISAs are alike. The typical ISA program is offered not at a 150-year-old, prestigious, public university known for its scholarly research but rather at a

smaller college or university or at a short-term, accelerated, vocational, or skills-based learning program, ranging from coding academies to HVAC repair courses.

ISAs administered by four-year colleges, such as Purdue University or the University of Utah, tend to have longer payment windows, and they tend to require smaller income shares from students. Funds at these schools are more likely to be evergreen or have deferred tuition than in other settings and are more geared toward gap financing than access at the admissions level (with the exception of Colorado Mountain College's Fund Sueños for noncitizen students ineligible for federal financial aid). In other words, students generally exhaust grant, scholarship, and subsidized government-loan financial aid before considering an ISA for the remaining cost of attendance. There also tends to be more diversity in contract structure, often based on different degrees and programs of study within these schools. For example, Purdue offers different income shares and payment terms based on the student's year in school (sophomore, junior, senior), level of study (undergraduate, graduate) and projected earning profile of the relevant field/major. On the other hand, the University of Utah offers the same income share to all students, but different payment terms based on field of study. Other schools offer the same contract to all students who share certain common characteristics (e.g., GPA cutoff, qualifying majors) or to all students.



As funding for workforce development programs in the U.S. has fallen dramatically over the past decades, organizations engaged in this field have turned to ISAs to inject capital into public and private workforce development efforts.

ISAs provided by vocational and skills-based training programs, such as data science programs and coding academies, tend to be shorter and have a tight link to relatively immediate labor market outcomes. The payment term is commensurately short—as little as three to six months for some programs—and the income shares required tend to be higher than those at colleges and universities. At these institutions, the impetus for offering ISAs revolves around expanding access. Many, if not most, do not participate in the Title IV student loan program, meaning students are either paying out of pocket or securing private loans. For some programs, offering an ISA has become a necessary tool for competing for students. Access to ISAs at many programs is not necessarily universal, as plan providers can employ certain knockout criteria (e.g., not offering contracts to individuals with recent bankruptcies or significant defaults) or require that individuals who take on an ISA obligation pass rigorous educational testing. Such policies reduce the risk for ISA providers and investors, but they also reduce the population of disadvantaged or credit-constrained individuals eligible to benefit from ISAs.

As funding for workforce development programs in the U.S. has fallen dramatically over the past decades, organizations engaged in this field have turned to ISAs to inject capital into public and private workforce development efforts. Because of the short-term, often vocational nature of these educational and training programs, many of the typical ISA features discussed previously for accelerated, nondegree programs apply in the workforce development space as well. An increasing number of workforce boards concentrate on outcome-focused approaches to support sustainable workforce development programs through an evergreen fund, as discussed in the chapter “Unlocking Education and Economic Mobility with Income Share Agreements” of this book. ISAs as part of workforce development programs

have proved particularly popular among participants who are ineligible for federal financial aid and are drawn to the “learn now, pay later” aspect of ISAs.

PROMISES OF ISAs

Given that the market for modern ISAs is both young and relatively small, there is little to no causal evidence on the benefits and risks/costs associated with ISAs for consumers, educational programs, or investors engaged in the market. On a theoretical level, education providers are incentivized to offer education that leads to gainful post-graduation employment for students. Educational programs that provide students with few high quality job prospects theoretically would be forced to either reform their curricula and placement services or else be purged from the market because of a lack of profitability. This incentive is effectively a result of the risk sharing created by some ISA structures in which the burden of financing a student’s education is shared by the institution. But since ISAs are a relatively new product and one of many financing methods for students, in reality, institutions have other options, including abandoning the ISA, changing its terms, or becoming more selective about the type of student they admit. Alternatively, in a market typically characterized more by noise than certainty, ISAs could offer a useful signal to students that their education is likely to lead to successful job outcomes—particularly when the ISA program has performed well for several years.

Compared to loans with income-driven repayment (including the possibility of balance forgiveness), both payments scaled by income and the cancellation of the debt obligation are inherent in an ISA contract and available to all participants without special eligibility rules or administrative processes. For comparison, the private student loan market, typically used by families who have exhausted federal financial aid, offers no protections

against negative income shocks.⁶ ISAs could also relax credit constraints and power an investment in valuable human capital for students who have exhausted their federal loan eligibility and do not have family members willing or able to participate in either the Parent PLUS or private loan markets.

CHALLENGES AND RISKS OF ISAs

The primary area of concern for critics of ISAs thus far has been contract terms that are unfavorable to students, particularly as they relate to potentially deceptive marketing, high implied annual percentage rates in the event of high realized incomes, potentially insufficient protections in the event of disruptive life events or low incomes, and potentially burdensome aggregate income shares for individuals who take on multiple ISAs or combine ISAs with loans. ISAs are intentionally designed to cross-subsidize low-earning participants by charging high-earning participants more, so the balance between downside protections and upside protections can be difficult to strike. To protect students, ISAs need robust consumer protections that are comparable to those available to student loan borrowers. Thus far, both case law and regulatory enforcement have been nonexistent or inconsistent—partly because the market is so new and partly because many laws applicable to student loans, as written, are not necessarily conducive to being applied to a complex contract such as an ISA without additional regulatory guidance.

As ISA providers must project the income distribution of a cohort of students, program managers need far more than outcomes for the “average” student. Most educational programs unfortunately do not collect (and are often unable

⁶ We understand some lenders have considered offering optional “insurance” in the case of low incomes for private student loan borrowers at a price of 2 to 3 percentage points relative to the no-insurance loan rate.

to collect) high quality earnings data on former students, and new programs have no data to inform these projections. Even with perfect retrospective data, individuals who have lower earnings potential or are more risk-averse may be more likely to select an ISA than an alternative form of financing. As a result, the earnings distribution of would-be enrollees can be somewhat different from the overall distribution; this concern is known as adverse selection. Once participants have taken out an ISA, they may have an incentive to earn less or nothing at all and avoid their ISA obligation; this concern is known as moral hazard. At a minimum, these and other issues inherent in designing financial products complicate the task of setting ISA terms that are both profitable (break-even for nonprofit entities) and attractive to would-be participants. Longer-term, ISAs may require more significant ongoing analytics and recalibration of terms for viability. Moreover, the absence of adverse selection or moral hazard in early ISA markets when the product is relatively niche does not necessarily imply that they are not concerns in a future with widespread ISA adoption. This is an endemic issue in consumer finance and one to which ISAs are certainly not immune.

And while an ISA may resonate in the abstract, many families struggle to evaluate the quality of higher education programs because of the diversity of programs and the purposeful obfuscation of quality metrics (for example, at certain for-profit colleges). In other words, some of the value of higher education is often opaque to families; if that were not the case, there would be no need to worry about aligning the incentives of education providers with student outcomes in the first place. The students least equipped to evaluate quality are often the most vulnerable—first-generation college, under-represented demographics, and those facing obstacles or discrimination in the labor market—who are of particular concern to lawmakers,



A nuanced view recognizes the potential of ISAs to address a number of market failures of the current system but urges legislators and regulators to build important guardrails that can help prevent harmful outcomes for students and institutions.

regulators, and society at large. In other words, in the case of new programs without a proven track record or those with a very low marginal cost (e.g., many online programs), the signal of offering an ISA may not be correlated with quality. This is less of a concern with traditional colleges, where the cost of education is very high, and the institutions incur the costs well before they are fully reimbursed by student payments. With online and other low marginal cost programs, however, a provider can offer generous ISA terms that might appear to suggest quality when they may actually be a way of creating a claim to be exercised via collections. The source of financing (institution, philanthropy, investors) can have a strong influence on these dynamics. These and other issues underscore the importance of and necessity for clear and strong consumer protections in the market for ISAs, particularly as ISAs promulgate and the possibility of “bad actors” increases.

ISAs, like many novel financial products, have garnered both ardent supporters and fierce critics over the years. A nuanced view recognizes the potential of ISAs to address a number of market failures of the current system but urges legislators and regulators to build important guardrails that can help prevent harmful outcomes for students and institutions. Generally speaking, we find that ISAs hold promise, but some have overstated this since ISAs often share some of the same challenges as other forms of income-contingent payment, including (well-designed) income-driven student loan repayment programs. On the other hand, critics



Ultimately, ISAs are neither a panacea nor a peril, and the devil is in the details.

highlight important consumer protection questions but tend to understate the promising mechanisms of ISAs around value alignment between educational provider and student and in drawing institutional focus more directly toward measurable student outcomes (financial and otherwise). Ultimately, ISAs are neither a panacea nor a peril, and the devil is in the details.

One key challenge for lawmakers and regulators is that, with so many contract terms at an institution's and investor's disposal, writing regulations that both 1) envision most reasonably predictable means of abuse but also 2) continue to encourage innovation and investment in the sector will be a tough needle to thread. Regardless of what the future holds for financing higher education, we must learn from the many programs (successful and not) that have led to the current challenges around postsecondary education and funding. We recognize the myriad ISAs that educational programs have designed in thoughtful ways to achieve important access, retention, and completion goals for their learner populations, and we anticipate seeing interesting ISA variants in the near future. But we also recognize that the relative success of some ISAs may in part be the result of better data collection processes and increased contact between students and financial aid offices (which can lead to higher rates of Free Application for Federal

Student Aid [FAFSA] completion, financial counseling, academic counseling, career development services, and connection with support programs⁷). Implementation of these and other policy changes (e.g., automatic enrollment in income-driven repayment) in the federal loan system—and the accompanying investment in both pre-loan and post-loan servicing—may produce comparable program improvements for student loans. We encourage and look forward to robust program evaluations that can formally assess the ability of ISAs to remain sustainable—and provide value to students and the institutions those students attend.



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⁷ Some ISA providers and program managers, such as Better Future Forward, explicitly set a goal of funding these wraparound services—delivered internally or with external partners—as part of the ISA program.



15

BACK A BOILER

/ BRIAN E. EDELMAN /

Economist Milton Friedman first proposed the concept of income share agreements (ISAs) in 1955 as a way to provide funding for students through an “equity investment,” in which students would receive funding for an agreed-upon percentage of future earnings for a fixed period of time. Beyond a brief experimental pilot at Yale University in the 1970s, however, ISAs never really gained traction in the U.S.

Over the past 50 years, the continued rise in college tuition has forced students to rely increasingly on government-subsidized loans and high-interest-rate private loans to



Higher education can never, despite the best of intentions, be truly accessible if it's not affordable and cost-effective.

finance their education, leaving students locked out of quality education or saddled with substantial student debt. Since obtaining a college degree has become an even more crucial path to economic security in the modern economy, universities have advocated for higher education access but have failed to rein in degree costs. Higher education can never, despite the best of intentions, be truly accessible if it's not affordable and cost-effective.

To assist our students in funding their education, Purdue became the first major U.S. research university to institute an ISA program with its Back a Boiler-ISA Fund in the fall of 2016. The program was designed to expand higher education access and increase tuition affordability. Launched by Purdue President Mitch Daniels and managed by the Purdue Research Foundation, Back a Boiler has provided over \$14.6 million to nearly 1,000 Purdue students in need of additional financial assistance to earn their degrees.

IT'S NOT A LOAN

The Back a Boiler-ISA Fund is an innovative approach to affordability. Our ISA was designed as an alternative to private and federal Parent PLUS loans to bridge student financing gaps once other funding sources (e.g., scholarships, Pell Grants, or federally subsidized loans) are exhausted. When a student takes out a loan, that student bears the entire



In contrast to loans, ISAs offer greater flexibility, provide important upside and downside protections, and align incentives with student success.

risk, since repayment is expected regardless of whether the student finds a well-paying job after graduation. In contrast to loans, ISAs offer greater flexibility, provide important upside and downside protections, and align incentives with student success.

The terms of our ISA are quite different from those of a standard student loan:

- Students receive funding through the program and fulfill the agreement by paying back a set percentage of their post-education salary—which varies by the student’s major—typically over 10 years, a payment period comparable to most loans.
- Students have a six-month grace period post-graduation to obtain employment and begin to save.
- If students are unable to obtain a job above the minimum salary cap of \$20,000 or if they remain unemployed, they make no payment, offering substantial downside protection.
- Once students hit their payment cap (approximately 2.3 times the amount they borrowed) or reach the end of their contracted payment window, no additional payments are required—even if the student has paid less than the amount they initially received.
- Every contract has a “payment window” that is equivalent to the maximum number of payments a student would have to pay plus any deferment months.

As an example, imagine a Back a Boiler student who earns less than \$20,000 annually while employed full-time or seeking employment. This student would not make a monthly payment until they find employment over \$20,000 annually, and the term of their contract would remain fixed. If this same student decides to pursue additional education or faces an unexpected life event, the contract can be “paused” and deferred for up to an additional 60 months without a monthly payment if:

1. They are enrolled at least half-time in higher education or training,
2. They earn less than \$20,000 annually while working fewer than 35 hours per week, or
3. They are not in the labor force currently or not seeking employment actively, such as when expecting to have a child.

The contract obligation is fulfilled at the end of the maximum payment term, even if the student has not made the full number of payments or reached the payment cap. In an alternative situation where a student outperforms their earning expectations, they will never pay more than the payment cap, which provides them upside protection as well.

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Purdue's ISA includes important downside protection ensuring that if a graduate's career starts slowly or not at all, their repayment obligation drops or goes to zero. Back a Boiler participants have the freedom and time to search for the job they want, rather than accepting any job offer for the purpose of servicing a debt.

A STUDENT'S STORY

The experiences of our students support our hypotheses about the potential impact of the ISA option. Andrew Hoyler used Back a Boiler to help bridge the financial gap during two semesters at Purdue as he studied to become a professional pilot. After earning his degree in May 2017, Hoyler taught as a flight instructor at Purdue for a year before accepting an airline job in the Washington, D.C. area as a pilot for regional flights.

While pilots have tremendous career and earning potential, they often start in lower-paying positions. Because ISA payments are based on salary, the terms are a good fit for job paths like Hoyler's with lower starting salaries and uncertainty regarding salary trajectories.

Hoyler explains, "Back a Boiler has really helped for those first couple of years after college when my pay was lower without having to worry about interest rates. I think a big thing for students looking at an ISA is that they have to be honest about where they see themselves in two, three, five, or 10 years. If they are entering an industry where they are going to be making \$90,000 right out of school, then an ISA might not be for them. An ISA is perfectly suited for those who are worried about loan interest racking up from day one."

While Hoyler hopes to move to a commercial airline as a pilot for longer domestic flights eventually, a benefit of his



From Purdue's perspective, an ISA is our way of demonstrating to students like Hoyler that we are confident that the education we provide will lay the groundwork for their success.

We back up that belief by sharing the financial risk.

current position is it allows him to travel for free to different parts of the world—and the ISA offers him the financial flexibility to continue to enjoy this lifestyle without feeling obliged to obtain a higher-paying job quickly.

"Being at an airline, I really have a great quality of life," he says. "I'm at the point where I have a pretty solid financial foundation. While I'm still paying off almost double what I owe every month on a traditional loan to pay it down, I don't really have to worry about that with the ISA."

From Purdue's perspective, an ISA is our way of demonstrating to students like Hoyler that we are confident that the education we provide will lay the groundwork for their success. We back up that belief by sharing the financial risk.

THE ISA IN ACTION

When we started Back a Boiler, the program was open

only to rising juniors and seniors during the fall and spring academic terms. Student interest led us to expand eligibility to sophomores as well as students enrolled in summer sessions. To qualify for the ISA, students must be enrolled full-time, have a declared academic major, and be a U.S. citizen or permanent resident. Back a Boiler requires students to declare a major because the field of study and potential career path offers students important data to inform their decision to participate. Since many first-year students have yet to declare a major and are less likely to have specific career goals or salary expectations in mind, they are not eligible for our ISA program.

It was important to us that, regardless of major, Back a Boiler was a practical option for students. Students' contract terms vary by major and are based on comprehensive national and Purdue-specific salary survey data so that participants will have similar repayment experiences across majors and earning potentials. By obtaining a blend of majors in our cohort, we created a viable program that prevents the need for higher-earning majors to subsidize those with lower earning potential.

A look at student participation to date validates our hypothesis that an ISA would appeal to a significant number of our students. In the first year of the program, we provided a total of \$2.2 million to about 180 students. Three years later, participation grew to roughly 400 students and \$4.2 million in funding for the 2019-2020 academic year. Back a Boiler students represent more than 150 unique majors across Purdue, and those majors are roughly representative of our overall undergraduate population. Students can apply for multiple rounds of ISA funding, but to reduce the risk of creating an unsustainable financial obligation, students are eligible for ISA financing of only up to 15% of their total anticipated earned income.

The following represents a sampling of situations that have led students to enroll in Back a Boiler:

1. First-generation students who might not be able to have parents co-sign for a loan,
2. Students with multiple siblings in school whose parents cannot afford additional Parent PLUS loans, or
3. Students who want to pay their own way but are concerned about student debt.

What links all of these examples is a desire for the additional protections and flexibility ISAs offer over loans.

An ISA can help our students manage the unexpected pitfalls that might come their way. The COVID-19 pandemic presents an all too real example of how events outside a student's control can be potentially devastating. Tragically, too many Americans are facing layoffs or pay reductions or grappling with the decision to leave the workforce due to a sick or vulnerable loved one. While millions of students with federal loans have relied on the loan relief from emergency government action, our Back a Boiler students had assurances built into their ISAs.

LESSONS LEARNED ON CREATING AN ISA PROGRAM

Over the past four years we have learned a lot about what works and what can be improved with an ISA program. One key observation that is intuitive, but bears mentioning, is that each student has their own reason(s) for considering an ISA. To build an ISA program with broad appeal, a school must first understand and respond to those unique student needs, including inability to access other types of financing due to first-generation status, families maxing out Parent PLUS loans, or students needing to fund their own education.

We have also discovered the importance of consumer education. ISAs are a novel concept, and many students have been overwhelmed by the amount of information we provide. In our desire for complete transparency, we created a data deluge for students considering the program, which further complicated their decision. To ensure students fully comprehend the information we provide, in our second year we instituted a quiz that all eligible students must pass to demonstrate an understanding of the program and their financial obligations. We also developed a Back a Boiler website with a robust FAQ section and sample contracts for students and their families. An ISA is not the right option for every student, so we maintain a close working relationship with Purdue's Division of Financial Aid to support students in their decision process. We encourage every interested student to talk with their parents and our financial aid department to determine whether an ISA is the best option for them.

As we developed the ISA, we were cognizant of the lack of federal and state regulation. We believe strongly in the potential of ISAs to serve as a viable alternative to unsubsidized loans. However, while proposals have been drafted in the U.S. Senate and House, at the time of publication of this book, no legislation exists to provide much-needed guidance and guardrails for ISA programs. In the absence of legislation, institutions bear the responsibility to develop the right terms and protections to safeguard students.

An ISA cannot exist in a vacuum. Any institution considering an ISA program should understand that such an offering is part of a broader institutional culture—an additional option that supports a subset of students. At Purdue, we saw Back a Boiler as a logical extension of our focus on higher education access and affordability. For example, we froze tuition for the past eight years and simultaneously lowered the cost of room and board and streamlined the university's

business processes. We estimate that if Purdue had raised prices at the average rate of Big Ten schools since 2013, students and their families would have paid \$600 million more, a significant portion of which would have likely been funded by more debt. Not coincidentally, since 2013, Purdue's average annual borrowing per undergraduate has steadily declined.

Building an ISA program is challenging, and any institution considering developing an ISA should have a clear-eyed vision of what they seek to accomplish. Our recommendations include:

- 1.** Understand how an ISA fits into your institutional culture and, by talking with students and financial aid experts, how an ISA can help bridge a key financing gap.
- 2.** Identify and address key questions, such as:
 - a.** Should your ISA be available institutionwide or just in select schools, departments, or programs?
 - b.** Is the ISA designed to help remove a barrier to entry for some students, encourage degree completion, or achieve other goals?
 - c.** Could an ISA help your institution extend gift dollars?
 - d.** Could an ISA help students transfer from two-year to four-year institutions or help adult learners return to college without the burden of traditional loan debt?
- 3.** Student involvement in the design process is essential. Students should play a role in ISA program design teams, and their input should be gathered through vehicles such as focus groups and surveys.
- 4.** Partner with an external ISA expert to help design and implement an ISA program that is student-friendly and

financially sustainable. Your institution will know what features and parameters an ISA program must include to be true to your institutional goals and values. A partner will bring the expertise to turn that vision into a robust program.

5. Three key drivers of the financial impact for students and for the institution are the ISA payment percentage rate, the payment cap, and the number of required payments. Adjusting these variables can help make the ISA an attractive alternative to students while supporting the program's sustainability.
6. Information is king. Parents and students need to have the resources and tools to make informed decisions, and having a robust website in place prior to your program launch is essential. As an example, Purdue offers an FAQ, a comparison tool, and sample contracts on its website at www.purdue.edu/backaboiler.
7. Be open to change. At Purdue, we review Back a Boiler annually. An ISA plan is not something to leave on the shelf once it's complete as it's a living mechanism. A commitment to continual improvement keeps the features of your ISA and related information relevant to those considering it as an option.



Building an ISA program is time-consuming and difficult, so my last piece of advice is perhaps most important:

***Always remember the why,
and make the work a labor of love.***

Building an ISA program is time-consuming and difficult, so my last piece of advice is perhaps most important: Always remember the why, and make the work a labor of love. Higher education is all about students achieving their dreams and goals. Your ISA can be a tangible way of showing students that you believe in the education you are providing and, most importantly, that you believe in them.



Brian E. Edelman is president of the Purdue Research Foundation, which, in its mission to serve Purdue University, manages a nearly \$4 billion financial portfolio and accepts gifts, administers trusts, funds scholarships and grants, acquires property, protects Purdue University's intellectual property, and promotes entrepreneurial activities on behalf of the university. Edelman is responsible for the Foundation's overall operations, and he served as project director of its Back a Boiler-ISA Fund.



UNLOCKING EDUCATION AND ECONOMIC MOBILITY WITH INCOME SHARE AGREEMENTS

/ BROOKE VALLE /

Until March of 2020 and the onset of the COVID-19 pandemic, unemployment in the U.S. was the lowest it had been in 50 years. The U.S. had arguably the strongest economy in the world—more Americans had jobs than ever, consumer prices remained low, and the stock market was on the longest economic expansion in history. Despite low unemployment rates, we saw that many San Diegans were struggling to find [quality jobs](#)—those with decent pay, benefits, predictable hours, and other important aspects as illustrated in Figure 1. Instead of security, San

Diegans, particularly low-wage workers and people of color, were experiencing reduced hours, temporary layoffs, unpredictable schedules, variable earnings, and an overall lack of health and retirement benefits. The gap between the middle class and upper class was widening under massive student loan debt and record levels of inequality.

At the same time, as a leader in workforce development, the San Diego Workforce Partnership knew from employers and participants that access to education, specifically quality, industry-recognized credentials, as well as the related supports (transportation, child care, technology access, etc.)—was key to turning the tide. [Quality credentials](#)—those with valid, reliable, and transparent evidence that includes substantial job opportunities, transparent competencies,

/ **FIGURE 1** /
Job Quality Indicators





Quality credentials—those with valid, reliable, and transparent evidence that includes substantial job opportunities, transparent competencies, and evidence of employment and earnings outcomes—provide individuals with the means to achieve employment and educational goals.

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While our funding has long been centered on the provision of workforce training and job placement, the amount of funding we have available typically falls far short of our need. Annually, we saw an average of 2,500 adults enrolled in our Workforce Innovation and Opportunity Act (WIOA) programs eligible to receive training, but we had sufficient funds to provide only approximately 500 individual training accounts (a type of scholarship) at a maximum of \$7,000 per person. Industry-recognized credentials are usually nondegree programs that do not currently qualify for federal grants such as Pell or even federally-backed student loans, so other sources of funding are generally limited.

Lack of access to workforce funding means that workers wishing to study are forced to wait for extensive periods of time, seek support from family, forgo training altogether, or turn to private loans. One career center customer said, “I took a career aptitude test that confirmed my desire for a career change, but the career center did not or cannot provide the resources for training. I was told there are no funds that support education or training at the time despite being eligible.” Another participant shared he had dreamed for years of transitioning from his low-wage job as

a stagehand in theatre to a tech job but lacked the funds to do so. Without access to a workforce program, he remained stuck in a job with limited upward mobility. Simply hoping we might have enough funding available to support him or encouraging him to come back next year was not really a strategy. In fact, in reviewing our customer satisfaction scores for our six career centers across San Diego County, we found that the single most frequent reason individuals were unhappy with the services provided was the lack of available training funds.

As we began to explore options, participants shared with us that they lacked access to capital due to credit score or immigration status, are saddled with student loan or medical debt for themselves or their spouse, have experienced predatory lending processes, or have limited ability to borrow additional funds from family or friends. Many of our participants have backgrounds working in retail, hotel, and small business sectors and indicated that the reason they enroll is because they have no room for career or income growth. Training for a career such as tech offers the opportunity to do both. Data shows that low-wage workers—particularly those in the retail sector, which makes up 9% of San Diego jobs—are disproportionately women or people of color. The lack of access to training is putting families at risk and widening the race and gender divide.



One career center customer said, “I took a career aptitude test that confirmed my desire for a career change, but the career center did not or cannot provide the resources for training. I was told there are no funds that support education or training at the time despite being eligible.”

Indeed, 49% of San Diegans make less than \$18 per hour,¹ less than one dollar above the Self-Sufficiency Standard for San Diego.² In a study of front-line jobs in the retail sector, we found that nonwhite workers are more likely to be placed in low-wage occupations, giving them far less access to the resources needed to advance. If we consider only the top retail occupations, race accounts for 51% of the variation in average occupational wages. These retail workers, as well as workers in tourism and hospitality, are some of the primary consumers of our WIOA services and often most in need of support to advance their careers through education and credentials. Without such career ladders they remain trapped below self-sufficiency.

In response, we began to overhaul our approach to training, starting with reviewing training providers on our Eligible Training Provider List; piloting cohort classes through customized training with adult education; encouraging individuals to leverage free and low-cost community college resources; exploring free, self-paced, online training; negotiating certifications en masse; and even designing pilots with employers themselves. While these were important steps, they did not fundamentally address the financing challenge. To truly fill the gap, we would need to look to a transformative new approach that could bring public and private funds to the table and establish an evergreen model to pay for training—this is how the Workforce Income Share Agreement Fund was born. In the words of our students, the income share agreement (ISA) is truly a unique opportunity because they wouldn't "have to save upfront to start it, since that would have delayed

the process," pushing them further away from a chance at economic mobility.

BIRTH OF THE ISA FUND

In the summer of 2019, after nearly two years of research and program design, we raised \$3.3 million in philanthropic capital and launched the first-ever ISA fund run by a workforce board, a pseudo governmental entity. As a board, we design the program, select the education institution(s), recruit the students, provide wraparound supports, and provide job placement support at the completion of students' programs. This enables us to align the incentives of the education provider and the funders to achieve the best outcomes for the student. As we engaged our community in the design, we saw the power of the ISA through participants' eyes as **"insurance" and "more security in taking a chance and investing in yourself, as opposed to the school loans where they really don't care if you get a job or not."**

PROGRAM SELECTION AND DESIGN

Our program selection is driven by a strong "why"—financing the workforce training and support gap to provide economic mobility access for all. Our design is focused on establishing a student-centric approach to provide maximum student protections while delivering high quality results. We believe ISA programs can strengthen and grow the workforce development system, but only if they are designed in a manner that reflects our values and the lived experience of the communities we serve. To achieve this, we were guided by a set of program design [principles](#) and informed by [feasibility considerations](#):

- 1. A design with input from those the program will serve:** A workforce ISA should utilize a human-centered design framework, directly engaging those it intends

¹ Martha Ross and Nicole Bateman, *Meet the Low-Wage Workforce* (Metropolitan Policy Program at Brookings, November 2019), www.brookings.edu/wp-content/uploads/2019/11/201911_Brookings-Metro_low-wage-workforce_Ross-Bateman.pdf.

² "Self Sufficiency Standard - California," University of Washington, accessed February 19, 2021, www.selfsufficiencystandard.org/california.

to serve in the design process and creating feedback mechanisms, which allow for continual improvement once operational.

2. **A minimum income threshold for repayment that reflects the local self-sufficiency wage:** A workforce ISA should be a function of sustainable earnings, not just earnings. Participants should not have any ISA repayment obligation when they are earning below a threshold linked to local self-sufficiency wages. While government subsidies such as unemployment insurance may act as a stopgap measure during times of transition, they should not be counted as wages in calculating repayment obligation.
3. **A rigorous framework for credential/institution eligibility:** A workforce ISA should provide funding for participation in education programs that have a proven track record of participant success and meet a robust, transparent set of quality criteria that are student-centered, evidence-based, and market-aligned.
4. **Inclusive, broad access eligibility criteria for participants:** A workforce ISA should be broadly accessible and not restricted by credit history or criminal history, except in the limited circumstances where such restriction is required for a target occupation. Character, competency, and need-based eligibility approaches should serve as the standard.
5. **Transparent, comprehensible, proactive disclosure and comparison tools:** A workforce ISA should be presented to prospective participants in a clear and open manner, alongside other high quality funding options. Demonstrated comprehension of key terms and features by potential participants should be a necessary stage of the ISA application process.

/ **FIGURE 2** /

Income Share Agreement (ISA) Development Lifecycle



For more information, visit workforce.org/outcomescenter

6. **A definition of income that excludes benefits and household earnings:** A workforce ISA should obligate participants to pay back only a defined percentage of their income, above a minimum threshold. The definition of individual income that informs the calculation of a participant's payment obligation should be explicitly designed to exclude household earnings and social safety net benefits of any kind.

- 7. A framework for dealing with hardship:** A workforce ISA should be sensitive to individual life circumstances, especially those where the traditional and routine protections in an ISA (e.g., the minimum income threshold) are not sufficient. Participants should have clear, accessible resources for disputing income calculations and presenting mitigating circumstances.
- 8. Useful and effective nonfinancial supports:** A workforce ISA should strongly consider bundling funding with a meaningful set of participant support services that contribute to, and are sustained by, positive employment outcomes. These supports can range from internship wages and career coaching to emergency aid and technology. These supports should also consider time horizons that align with the length of the repayment period.
- 9. Tools for holding providers accountable for outcomes:** A workforce ISA should shift risk from participants to funders and education providers. Providers should share accountability for participant outcomes, whether in the form of segmented payment (disbursement triggered by milestone), contribution to the ISA fund, or another type of financial involvement.
- 10. Clear, constrained payment terms:** A workforce ISA should have a clearly defined payment window—inclusive of limited extensions—that closes regardless of total payments made by a participant. It should also have terms for prepayment and maximum payment, which are transparently presented to participants before signing an ISA contract.
- 11. Competency-based assessments:** workforce ISA should employ competency-based approaches to candidate selection that reduce bias and create access

to opportunity based on qualifications. They should set participants up for success and include processes to assist those who may need additional support prior to enrolling in a program.

- 12. Proactive compliance with federal and state law:** A workforce ISA should perform with the highest possible standard of consumer protection law imaginable in all areas, even where a specific standard does not clearly or obviously apply to ISAs.

Our program is fundamentally a workforce intervention, so beyond covering the cost of the education, it embeds wraparound services for as long as the individual is repaying the ISA. The wraparound supports are intended to be sustained by ISA returns. Currently, \$2,000 of the \$6,500 face value of the ISA³ is associated with supports including:

- Mentorship from an employee currently in a relevant career path and interested in connecting the student with networking events in the San Diego technology community
- Guidance from a career consultant who walks with the individual every step of the way
- Career-readiness training, resume assistance, and interview preparation support
- Internship and job placement services
- A support network for technology, transportation, and other services to empower the individual to be successful inside the classroom and on the job

Our program selection is centered on in-demand credentials based on both a review of the labor market

³ All four initial programs had a face value of \$6,500. Additional programs have since been added, and face value may vary based on the educational costs of the program.



While we can use an ISA to remove barriers related to program cost, we realize it is not the right fit for everyone. Our career consultants make a significant investment upfront to ensure the individual understands all aspects of the program, the contract, the workload, and expectations prior to signing a contract.

data and discussions with local employers. This includes identifying an education provider that has proven results in delivering employer-responsive credentialing programs and achieving high success in terms of student completion and wages. To launch, the San Diego Workforce Partnership collaborated with the University of California San Diego (UCSD) Extension to offer nine 12-month certificate programs in business intelligence, digital marketing, front-end development, and Java programming. Over time, we added programs in database development and user experience design and development. UCSD's incentives are aligned with the students as the San Diego Workforce Partnership pays UCSD through a service agreement that is tied to specific outcomes for students, such as successful training completion. The program is structured as a cohort to build peer support and is offered primarily online through asynchronous instructor-led coursework. This is coupled with peer learning through study groups on Slack, UCSD-led discussion groups on Canvas, and networking events.

Student selection for the program is focused on competency, need, and grit. Competency is assessed through a set of exams designed by UCSD that provide a view into which candidates have the necessary foundational skills, such as English, math, and digital skills, to succeed in the coursework. In cases where the individual does not possess the necessary foundation, we refer them to available

resources through the local community college and adult education system for upskilling. Need is assessed through a review of indicators including public assistance, income, first-generation college, and underrepresentation in career field with a focus on ensuring that those who have the necessary skills and the greatest need receive access to the program. Grit is about the applicant's willingness to show up and engage with a series of pre-program activities.

While we can use an ISA to remove barriers related to program cost, we realize it is not the right fit for everyone. Our career consultants make a significant investment upfront to ensure the individual understands all aspects of the program, the contract, the workload, and expectations prior to signing a [contract](#). The consultant serves as a career coach to encourage the applicant to pursue a field of study, not based on the highest potential earnings but rather on the best alignment with that individual's skills, interests, and experiences. To accomplish this, we utilize tools such as [Career Coach](#), which assesses skills and interests based on a research-based framework. As a nonprofit workforce board, we view ISAs as simply one mechanism to assist our community; it is a "fit for purpose" tool. Our goal is to talk a person out of the program—making them aware of other options ranging from free courses from the community college, online courses, or other workforce services—if it is not 100% right for them.

In designing the contracts, we focused on creating transparent, comprehensible, proactive disclosure tools. This starts with making our disclosures available on our website but also includes a two-week process where students communicate with our career consultants about the ISA program. Consultants provide an overview to the student about the ISA program, what it is, and what it is not. They also provide information about other resources available through career centers, community colleges,

UCSD, and other universities in the area. They discuss services and supports that are available through the ISA program and those that are available through external partners. After the initial conversation, the participant receives a sample ISA contract and schedules a follow-up call to discuss the contract. Potential participants are encouraged to take a week to read through it, discuss with family, and come up with questions. During a follow-up call, if the career consultant senses the individual has not yet read the contract, the consultant will not accept a signature and schedule another date to ensure that the participant reads the contract and comes with questions. We formally offer an ISA contract at the end of the second phone call if we are sure that the participant fully understands what an ISA is and what our program does.

PROGRAM FUNDING

Our initial program funding strategy focused on raising philanthropic capital sufficient to achieve a “steady state” for the fund. An evergreen model instead of a return-seeking structure is not only directly aligned with our mission as a nonprofit but enables us to focus on proving the concepts and ensuring a set of ISA terms that are responsive to student needs. We collected student feedback through focus groups and interviews that directly influenced our considerations for the income share, income threshold, and payment windows. We established a \$40,000 income threshold that is informed by the living wage in San Diego, which is \$17.65 per hour for one individual as of December 2020. We included a three-month grace period and a hardship clause in our contracts to provide further protections to students. Additionally, we enabled students to restart in a later cohort without financial penalty if life’s circumstances prevented them from completing the program during the cohort in which they originally enrolled.

/ FIGURE 3 /

Educational Programs of the Workforce ISA Fund

UCSD Extension Certificate	Course Length	Cost (per person)	Income share** (%)	Number of payments	Payment cap+	Payment window~
Business Intelligence	9 months	\$6,500	8%	48	\$11,700	6 years
Digital Marketing	9 months	\$6,500	8%	60	\$11,700	7 years
Front-End Development	15 months	\$6,500	7%	40	\$11,700	5.5 years
Java Programming	15 months	\$6,500	6%	36	\$11,700	5 years
Database Management	12 months	\$6,500	5%	48	\$11,700	6 years
User Experience Design + Development	15 months	\$8,500	5.5%	48	\$15,300	6 years

**The income share is only payable when a participant is making in excess of \$40,000 a year.
 +The payment cap is 1.8x the total cost per person and is the maximum that a participant can pay back to the fund.
 ~The payment window is the period within which the participant can make the required payments. Once this period ends so does their obligation, regardless of overall payment status.

PROGRAM IMPLEMENTATION

Once the programmatic design and fund were in place, we turned our attention to implementation. We started recruitment by focusing first on the populations we were already serving and then on individuals who were recently laid off and receiving unemployment insurance through coordination with our Employment Development Department. As a workforce board, we serve thousands of individuals every year. In [FY19](#) alone, we provided 168,323 services to job seekers and served 25,954 adults and young

adults across San Diego County. We also work closely with community-based organizations across San Diego that are focused on serving special populations, ranging from immigrants and refugees to veterans or those receiving CalFresh or Welfare to Work subsidies. Additionally, we collaborate with our education provider to make the ISA option available to their applicants who may not have the financial means to pursue education on their own or who may need the additional supports embedded in our workforce ISA. As our ISA population grows, [word of mouth](#) is also becoming an important tool for recruitment.

To service our ISA, we competitively procured the services of Vemo Education, which provides origination, income validation, and collection support. Students can access a Vemo representative at any time to discuss aspects of their ISA contract and view their account through an online portal.

Throughout the operation of the program, the career consultant plays a critical role in following up with students weekly to discuss not only their educational needs but also provide support and encouragement as life events occur. This can range from providing a computer for an individual who doesn't have one to connecting individuals to mental health resources (access to meditation app Headspace is provided free to all students) to working with instructors to coordinate additional tutoring, extension of deadlines, or other creative approaches to meet learning needs. Career consultants also keep students abreast of how the labor market and employer demand are evolving, assisting students with finding jobs as well as market exposure opportunities (internships, volunteer opportunities, employer networking) both during and after program completion. Student feedback indicates that one of the most powerful aspects of this model is simply having someone in their court to help reduce stress and smooth the navigation as challenges arise; while students' desires

to succeed are strong, we simply cannot underestimate the power of personal support. Much like a successful personal trainer, consultants understand the individual's "why" for pursuing the program and flex their style to meet students where they are. A student in the digital marketing program shared, **"The [program] is valuable to students because not only is it an opportunity to invest in themselves, learning new skills to take into the workforce, but [it is] an opportunity that comes with so much support."**

PROGRAM EVALUATION

The program is built around establishing multiple levels of evidence to demonstrate success. This started with the creation of a logic model (theory of change) prior to program launch that outlined the outputs, outcomes, and impacts we set out to achieve as an organization for our students, our funders, and our board.

Our theory of change is executed through the ongoing collection, tracking, and monitoring of criteria at every point in the process, from recruitment through graduation as well as the issuance of quarterly reporting on project performance to our board. Evaluation will then be layered on top of performance to understand the impact of the program. Preparations for evaluation are currently in discussion as our first cohort of students in two classes graduated in 2020. We are collaborating closely with our funders on the evaluation process but anticipate it will include a deep dive on which components of the intervention were most meaningful, results by demographic distribution, comparisons to those who chose not to enroll in the ISA, economic mobility generated for the individual, and financial performance of the fund.

Finally, continual process improvement is embedded as an operational component in our model. This includes adapting

practices, approaches, and services both at the workforce board and at the education provider levels “in flight” based on student input. For example, an ISA is just one possible resource in the market. Student choice is critical, and we have seen students decline ISAs for varied reasons, including the ability to pay for the training out of pocket or through other resources (such as veteran benefits), unexpected family issues requiring their focus, lack of interest in the career paths offered, or a desire to access free or lower-cost training, even if it meant waiting for services. This has encouraged us to continue to expand the career paths and wraparound supports available, invest as much time it takes to help individuals decide what is the right route for them, and explore partnerships with organizations such as Microsoft, Coursera, and AWS to make online, self-directed courses available free through our website.

In the program delivery phase, we learned many students were struggling with mental health issues. While referrals and the Headspace app were useful, they could not fully address these issues. We are now exploring how we can provide direct access to mental health support advocates so students can call someone the moment they need help instead of going through a referral process that might take longer and discourage them from seeking support. On the education front, when career consultants heard from students that they were struggling with a concept from the coursework, we rapidly partnered with our education provider UCSD to implement weekly instructor sessions to address these questions. This underscores the importance of identifying an education provider that is not only committed to student success but also flexible and agile in its approach.

With the COVID-19 crisis in full swing, we explored changing our ISA contracts to extend the grace period by three additional months following graduation. However,

since our terms require only those who make more than \$40,000 a year to repay and our contracts already included a “hardship provision” that would allow participants to defer payments should they need to, we opted not to make changes because those that were most affected financially by the crisis would not trigger the repayment requirements.

LOOKING FORWARD

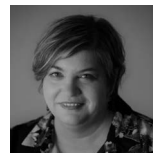
As we move ahead, our focus is twofold:

- **Closely monitor the performance of our existing programs and adapt or expand as needed.** As the originator of the ISA, we are positioned to select the education provider, the terms, and the programmatic approach to help students succeed. Prior to COVID-19, we were specifically evaluating the application of the ISA model for training in education, health care, and skilled trades as well as for supports such as transportation, child care, and stipends. The COVID-19 crisis rapidly expanded the number of workers out of work, and as the market adapts to the crisis, upskilling will be critical. In two short months, San Diego saw 500 employers impacted and 80,000 individuals laid off. We are actively engaging with our community to determine what the right role is for ISAs to play in response to the surge—including exploring changes to services such as expansion of mental health resources and understanding emerging skill demands, particularly those required for the distance economy.⁴
- **Grow the infrastructure, tools, and support available to others in the workforce space interested in leveraging ISAs to meet their needs.** This includes program design support, diversification of funding, and even policymaker education. We partnered closely with

⁴ Sapana Agrawal, Aaron De Smet, Sébastien Lacroix, and Angelika Reich, “To Emerge Stronger from the COVID-19 Crisis, Companies Should Start Reskilling Their Workforces Now,” McKinsey & Company, May 7, 2020, www.mckinsey.com/business-functions/organization/our-insights/to-emerge-stronger-from-the-covid-19-crisis-companies-should-start-reskilling-their-workforces-now.

Jain Family Institute to develop a workforce-specific modeling tool that enables workforce boards to simulate the impact of different ISA terms on the student as well as on potential investors. This allows a workforce board to verify that the terms are purpose-aligned with the intent of the program and make strategic decisions about how to use the ISA tool to best serve their community. Through funding from Lumina Foundation, we collaborated with other workforce boards to design not only principles for workforce ISAs but also a detailed feasibility questionnaire to determine when an ISA is the right tool for the need. We are digging into how both private and federal sources such as WIOA, the Supplemental Nutrition Assistance Program (SNAP), or Community Development Block Grant (CDBG) programs can best be used and creating structures to support how they can be incorporated.

Over time, we intend to raise a \$30 million fund to meet the need in San Diego through a blended capital stack that incorporates not only philanthropic funds but also Community Reinvestment Act (CRA) funds, mission-aligned program-related investments (PRI), and impact investments. We will also leverage federal sources such as WIOA and SNAP Employment and Training to either reduce the overall cost of an ISA to an individual or reduce its risk to investors. To achieve this, we established Workforce Ventures, a mission-aligned but legally separate 501(c)(3) dedicated to financing high quality workforce and training programs that lead to quality jobs. Workforce Ventures will support individuals, organizations, and approaches that create quality jobs, foster inclusive growth, and accelerate economic mobility for underserved San Diegans. Workforce Ventures will initially focus on providing innovative financing for ISAs but, over time, will expand product offerings to other innovative financial products. Programmatic delivery will remain at the Workforce Partnership.



Brooke Valle serves as the San Diego Workforce Partnership's chief strategy and innovation officer, leading the organization's strategic planning, national partnerships, and advocacy efforts as well as the incubation of innovative financing approaches. She is recognized as a thought leader in the workforce development space for her result-oriented approach to addressing inequities and fostering public-private partnerships.



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Photo credit:
General Assembly

ACCESS TO OPPORTUNITY

THE GENERAL ASSEMBLY CAREER IMPACT BOND

/ LISA LEWIN + TOM OGLETREE /

General Assembly (GA) is a global education company that prepares adults with the most in-demand skills of the digital economy, focusing on career changers looking to break into the fields of technology, data, design, and marketing. Through partnerships with community organizations and Fortune 500 employers, GA provides training programs that are designed to meet the most urgent needs of a rapidly changing economy and help individuals learn the industry-relevant skills they need to enter and succeed in higher-wage jobs.

Since 2011, over 23,000 students have transformed their lives and careers by participating in GA's Immersive programs: full-time, 12-week courses in software engineering, data science, and user experience (UX) design. In addition to skill development, students participate in career services programming and work with a coach until they secure employment using their new skills. With campus locations in nine countries and a deep network of hiring partners around the globe, GA has a proven track record of helping students land new roles: Over 91% of graduates who participate in GA's full-time Career Services program accept a job offer in their field of study within six months of graduating.

While our programs lead to significant wage gains, the upfront cost is a barrier for many prospective students. To date, GA has secured public and private investment in scholarship programs that fully fund the cost of training for over 1,700 adults, creating greater access for talent from underserved and overlooked communities.

But while scholarship programs and traditional financing options have supported many students, half of the applicants who successfully completed our screening process and were admitted to GA Immersives were unable to secure financing—often due to factors outside their control, like FICO credit score cutoffs often associated with private loans.

Branden LaCour, for instance, grew up in the foster care system and had poor credit history from his time as a touring musician due to subsidizing his band's costs. He eventually fell in love with coding in his downtime but was unsure that

Working with employers

GA's high placement rates are in part due to alignment with labor market demand. We design our curriculum with the current job market in mind and adapt it to respond to market shifts. Instructors are hired out of industry and bring their experience as software engineers, UX designers, and data scientists into the classroom. Instructional designers regularly review and update the curriculum with guidance and input from seasoned industry leaders (who also serve on GA's standards boards) and experienced practitioners (who make up GA's product advisory boards). Further, our in-house work to provide training to employees of Fortune 500 companies provides additional feedback loops and market signals about the skills and competencies required to be successful in the digital economy. In 2017, GA was acquired by The Adecco Group, the world's largest human capital solutions firm, creating further opportunities to scale up our programs.

he had the means or credit history to apply to a full-time GA program.

As LaCour tells it: **"GA got in touch and said, 'Hey, we have this new Career Impact Bond thing,' and then two weeks later I got in. And it was a huge celebration. It felt like, this is it."**

Prior to enrolling in the GA program in December 2020, LaCour was a bartender; he graduated amid the COVID-19 pandemic and currently works as a software engineer in Chicago.

GA is licensed as a trade school, rather than a traditional higher education institution such as a college or university. Unlike students in accredited, degree-granting

postsecondary education programs, GA students are not eligible for traditional student loans as they work to build new career-relevant skills. As a result, students like LaCour with limited credit history, a handful of penalties due to late payments, or other debt obligations are often unable to secure financing—perpetuating a cycle that keeps them from obtaining the training necessary for sustainable career paths with upward mobility.

We believe that past credit history is not a predictor of future career success and earning potential, and we have seen students from a wide range of educational and professional backgrounds achieve success through our programs. We admit students with the highest likelihood of being successful in the program and in their job search, which is often poorly correlated to prior educational attainment or professional experience.

Our decision to explore income share agreements (ISAs) stemmed from the following factors: a track record of securing post-program placements for career changers, a rigorous assessment process that set clear expectations for prospective students, and a high volume of students interested in pursuing training through GA programs but without access to capital or credit to finance them. Given GA's focus on outcomes, there was also appeal in leveraging a program model that demonstrated a commitment to placing students in jobs and created financial incentives for us to ensure that graduates secure employment in industry.

ISAs AT GENERAL ASSEMBLY

In 2018, we launched Catalyst, an ISA model rooted in the mission of expanding access and opportunity that underpins all GA programs. Catalyst provides ISAs as one of multiple financing options for full-time Immersive training programs in three disciplines: software engineering, UX

design, and data science. For the Catalyst program, we worked with Vemo Education, the largest servicer of ISAs in the U.S., to develop a model based on historical data on GA student outcomes, starting salaries, loan repayments, and default rates.

The Catalyst program offers the following terms:

- ISA holders make 48 monthly payments of 10% of their income when employed. We chose this amount because it is comparable to what students might pay for a loan, based on GA graduates' typical starting salaries.
- ISA holders are expected to make these 48 payments over a time horizon of 96 months post-GA certification, after which ISA repayment obligations end, regardless of the amount paid. Graduates also have a six-month grace period before their ISA contract obligation goes into effect, ensuring there will be time for them to secure a job and begin settling into their role.
- When not employed for any reason, ISA holders do not make payments.
 - a. This applies not just to individuals who are actively seeking work, but also to those who have personal, family, or health-related reasons for being out of the workforce.
- ISA holders making less than \$40,000 per year do not make payments.
 - a. According to PayScale, average starting salaries for web developers are \$54,237 nationally.
 - b. Data from Climb Credit shows that GA graduates report median starting salaries of \$60,000 after taking a GA Immersive course.

- c. The threshold is designed to protect students who pursue freelance work, start businesses, or seek roles outside of their industry if they are making salaries below tech industry averages.
- The total ISA is capped at 1.5 times GA's tuition.
 - a. In practice, this means that ISA holders who command high salaries may end up paying \$22,500 total, as opposed to the consumer price of about \$15,000 or the average loan repayment of \$18,500.

LAUNCHING THE CAREER IMPACT BOND PROGRAM

Since its launch, Catalyst has proved to be a promising tool to help individuals finance their training: To date, the program has served over 2,000 students. However, **financing alone does not ensure that students can consistently be successful in the program if they are navigating circumstances such as housing insecurity, prior (and current) financial obligations, or personal circumstances that might affect their ability to complete the program and commit to the job search.** Further, while the Catalyst program has generous credit requirements, some students are still unable to secure an ISA due to specific types of credit events, typically some combination of bankruptcies, defaults, and delinquencies.

As we continued to expand the Catalyst program, we saw the need for other forms of support in addition to financial assistance—like career coaching, financial literacy training, and emergency aid for those who need immediate support. We also encountered the limitations of traditional scholarship-based models for under-resourced students, often due to limited or geographically constrained philanthropic partners and inconsistent public investment in education and training.



The Career Impact Bond is rooted in the belief that individuals with fewer resources would, with the appropriate support, be able to succeed at the same level as those with more.

GA worked with Social Finance over a two-year period to structure the Career Impact Bond program. In designing the program, GA and Social Finance decided that payment terms must be consistent with the Catalyst program. The perception among most funders is that the populations GA serves are “riskier” than traditional students. For GA, it was imperative to combat this false narrative. The Career Impact Bond is rooted in the belief that individuals with fewer resources would, with the appropriate support, be able to succeed at the same level as those with more.

Unlike GA’s other financing programs, the Career Impact Bond was designed to be accessible to (though not limited to) people who have had negative credit events in the past. Students are eligible for the Career Impact Bond if they:

1. Are ineligible for other financing options at GA,
2. Were eligible for public benefits in the two years before enrolling, or
3. Have a felony or misdemeanor charge on their record.

The Career Impact Bond was funded through impact investment commitments from Social Finance’s UP Fund, a financing vehicle created for these kinds of mechanisms, and Prudential Financial. In addition to financing for the ISA, the program also includes comprehensive wraparound

services. The Career Impact Bond supports these efforts in two primary ways:

1. Funding full-time social service professionals to directly support student needs and
2. Maintaining an emergency aid fund to provide emergency financial assistance for students to cover unexpected costs related to housing, food, transportation, tech, medical, or other issues.

The team is composed of seasoned professionals with backgrounds in social work who provide student counseling, case management, and relevant and timely community referrals. Students can access immediate cash support for financial emergencies, disruptions to child care, hardware or software needs, or food insecurity.

We launched the program in December 2019 with the aim of serving 1,000 students over a three-year period.

WHAT WE’VE LEARNED—AND WHAT’S NEXT

Right now, we are at the beginning of the evolution of the Career Impact Bond. What have we learned?

The ability to pivot in real time has been integral to the program’s success to date, especially in 2020 with the onset of the COVID-19 pandemic. GA’s course offerings moved entirely online, and many students required assistance in navigating this transition, from securing necessary hardware to navigating the remote learning environment. Further, students had to manage factors outside of the classroom that required additional support, including personal and family health challenges and loss of supplemental income. Our Social Impact team had to completely rethink its traditional support of students, responding to their needs in real time by developing tools like the COVID-19 Global

Resource Guide, an expansive list of housing, mental health, and emergency assistance resources.

Despite the unexpected challenges posed by the pandemic, we have found that the Career Impact Bond program is, for many students, helping to advance our goal of accelerating economic mobility and expanding access to training. Below are testimonials from students in California:

“I spent decades in prison and was able to learn about coding as a member of The Last Mile program. After my release I didn’t have a job or credit and was starting over but wanted to continue what I learned with The Last Mile. This ISA helped me enroll in the Software Engineering Immersive program and continue my journey.”

“I didn’t have a lot of money or options and was making \$20K a year. I have a son and needed to find something that would improve our lives. This ISA has put me on track for a new career, a new salary, with new skills. The emergency fund helped me during the pandemic to pay my bills when I could no longer work.”

The Career Impact Bond program will require consistent and ongoing iteration to adapt to the external environment while integrating the lessons we are learning as we support increasing numbers of students. Below are a few reflections



This ISA has put me on track for a new career, a new salary, with new skills. The emergency fund helped me during the pandemic to pay my bills, when I could no longer work.

and recommendations for other training providers considering such a financing option:

- **Know your audience:** To launch an effective Career Impact Bond program, it is critical to first have a deep understanding of the nuances of the student population and the life circumstances that may affect a student’s experience in the classroom and in their job search. In many cases, we have been able to anticipate student needs in a way that has helped the program run smoothly—from tech challenges to health insurance needs to emergency funding. Program surveys have been one effective method to receive anonymous feedback from current students about program support services that could be useful for future cohorts (e.g., tech support or assistance) as well as external resources that are helpful for students, depending on personal needs outside of the classroom (e.g., child care).
- **Invest in upfront assessment:** It is also important to understand the competencies required to be successful in an education or training program—and use that understanding to conduct an in-depth, robust assessment of incoming students. Any provider must have a clear-eyed understanding of its strengths, as well as its limitations; a given program will not be a fit for everyone who walks in the door. To that end, it is imperative to create assessments on the front end to ensure students have clear expectations and the support structures in place to be successful from day one.
- **Create strong partnerships:** Of course, strong partnerships and seamless collaboration are required to get any education or training program off the ground, whether that comes from funding partners, social service organizations, or public sector entities.
- **Embrace learning and growth opportunities:** Career Impact Bonds unlock a tremendous amount of data—

from how students navigate programs and use different services to what employment outcomes look like years down the road. Capture this data and use it to revisit original assumptions and seek continual improvements.

Launching a program like this has been, and continues to be, as much of a learning experience for us as it is for our students. Our work with the Career Impact Bond has also informed our approach in other programs: Now, for instance, we make the global resource guide available to all students and leverage trained social service staff to help instructors deal with complex situations. We are exploring the right ways to expand the supportive services and emergency fund to all our students. Initial results have provided reason for optimism that the program will achieve its goals, even amid the global public health and economic crises—but we also know that this is only the beginning. We are excited to continue building and learning as we expand the Career Impact Bond and explore new ways to help lift up those who are in greatest need of support and opportunity.



Lisa Lewin is the CEO of General Assembly, a pioneer in education and career transformation offering dynamic courses in data, design, business, technology, and other high-demand skills. Prior to General Assembly, Lewin served as president of Pearson’s teacher education group and managing director of the publisher’s global learning technology group.



Tom Ogletree is vice president of social impact and external affairs at General Assembly. Ogletree previously held leadership roles at the Clinton Foundation, CCS Fundraising, and GLAAD.



ISAs are intended to disrupt a status quo that is rife with consumer protection failures.



This chapter will delve into the consumer protection issues surrounding ISAs and the best ways to address them. However, it is important to remember that ISAs are intended to disrupt a status quo that is rife with consumer protection failures. The current student loan landscape is a nightmare for borrowers.

18

CONSUMER PROTECTIONS FOR INCOME SHARE AGREEMENTS

/ SHEILA BAIR + PRESTON COOPER /

Over the past decade, income share agreements (ISAs) have enjoyed a spectacular surge in popularity. Several traditional universities such as Purdue have adopted them as an alternative to high-interest private and Parent PLUS student loans, and they have become the funding tool of choice for startup educational providers like General Assembly (both of which are discussed in this book). But as the product has become more prominent, so too have consumer protection concerns. ISAs are a promising financial innovation, but innovations present risks.

BENEFITS OF ISAs VERSUS LOANS

With a traditional student loan, the debt burden is fixed. Students who borrow the same amount will be responsible for paying the same amount, regardless of whether they succeed in the labor market. Federal student borrowers have the option to reduce their payments if they have low income, but the outstanding balance will negatively amortize if these reduced payments do not cover interest. If students default on their loans, the federal government is empowered to garnish their wages, seize their tax refunds and Social Security benefits, report the default to credit bureaus, and charge fees of up to 25% of the outstanding balance. In most cases, the loans are not dischargeable in bankruptcy.

The federal student loan program regularly perpetrates abuses that regulators would never tolerate from a private lender. Critiques of ISAs on consumer protection grounds must keep this in mind: There are no perfect financial products, but ISAs can be a major improvement over the status quo.

ISAs avoid many of the problems with traditional student loans. There is no interest and no principal, which means no negative amortization. Payments are tied to income and automatically adjust if students face economic headwinds, which means no wave of defaults when recessions strike. If the federal government adopted the model as a replacement for student loans, ISA payments could be collected through the tax system, further simplifying life for recipients.



For providers of education, ISAs fundamentally change the financial incentives. Since payments depend on a student's earnings after graduation, providers are encouraged to maximize their students' potential to find a well-paying job.

For providers of education, ISAs fundamentally change the financial incentives. Since payments depend on a student's earnings after graduation, providers are encouraged to maximize their students' potential to find a well-paying job. The ISA program operated by the San Diego Workforce Partnership, also highlighted in this book, pairs classroom instruction with mentorship and career consulting. Those extra supports maximize the student's earnings potential after completion.

Many student protections are built into the very structure of an ISA, such as adjustable payments and a lack of negative amortization. When designed right, the model also aligns the incentives of the student and the provider, ensuring that the school has a direct financial stake in its students' future success. The remaining question is how regulators can design consumer protections to ensure the model lives up to its full promise.

CONSUMER PROTECTIONS TO MAXIMIZE THE BENEFITS OF ISAs

Consumer protections are vital because ISAs carry the potential for abuse, like any financial instrument. Many existing consumer protection rules, such as usury laws, are not appropriate for ISAs because they are not traditional loans. Moreover, private investors and philanthropists may be reluctant to back ISA programs so long as consumer protection issues remain unresolved. Establishing clear consumer protection rules is in everyone's interest.

Fortunately, at the time of publication of this book, a bipartisan proposal exists to do exactly that. The ISA Student Protection Act of 2019, introduced by U.S. Sens. Todd Young (R-IN), Mark Warner (D-VA), Marco Rubio (R-FL), and Chris Coons (D-DE), would set down many of the consumer protections in law. While many of the specific rules would be enshrined in statute, the bill also delegates authority to the Consumer Financial Protection Bureau (CFPB) to design disclosure forms and ensure that ISAs comply with consumer finance laws. Unlike traditional student loans, the act would make ISAs dischargeable in bankruptcy.

Some progressives push back on the legislative effort, worrying that a formal consumer framework will give ISAs legitimacy. Many recoil at the involvement of private investors in existing ISA programs. But this reticence stems from a fundamental misunderstanding of the issues on the table.

First, ISAs are not a purely private phenomenon; public universities such as Purdue have embraced the model, as discussed earlier. And for our part, we would be delighted if the federal government would also consider ISAs as an alternative to its student loan program. ISAs are far superior to loans in financing higher education: Properly designed, they better align the incentives of education providers while giving student borrowers considerably better downside



ISAs are here to stay and likely to expand as their advantages over traditional loans become apparent.

protection against the risk of future financial hardship because of a recession, illness, or other unforeseen circumstance.

Second, there is already a well-established private student loan market, which ISAs are poised to disrupt alongside federal loans. If the federal government makes it harder to offer ISAs, more students will turn to private loans, which will be higher-cost and impose future payment obligations that do not fluctuate with income capacity and are not dischargeable in bankruptcy.

ISAs are here to stay and likely to expand as their advantages over traditional loans become apparent. Advocates of consumer welfare should embrace legislative efforts to get ahead of potential problems by establishing protections today.

ESSENTIAL ISSUES

Efforts to establish consumer protections for ISAs should focus on several core aspects. Unlike loans, where the primary variable term is the interest rate, ISAs have multiple parameters that determine how much students will pay and what risks they will assume. Strong disclosure rules are necessary so that students understand the contracts they are entering into. The proposed ISA Student Protection Act would go one step further and set legal restrictions on how ISA contracts may be designed.

Lawmakers should be wary of directly regulating the parameters of an ISA program, since they may inadvertently give an implicit government blessing to programs with disadvantageous terms. We argue that the most important role for regulators in this space is ensuring robust disclosure rules. In addition, allowing ISAs to be discharged in bankruptcy—a prerogative not allowed for student loan borrowers—should provide powerful incentives against ISA contracts with onerous, unaffordable terms.

Disclosure. Perhaps the most critical issue with any new financial product is disclosure: Consumers must know what their obligations are and what risks are involved. Consistent disclosure rules are also necessary to allow students to comparison-shop among ISA providers.

Notably, a lack of strong disclosure rules is one of the central problems bedeviling the federal student loan program. Traditional colleges and universities send financial aid letters to students that often do not clarify that the students will be taking on loans, associating them with other forms of funding such as scholarships, grants, and work study programs that do not require repayment. According to a survey of award letters by New America, these letters rarely include reasonable estimates of monthly payments as is required of private lenders.¹ Traditional colleges also have no “skin in the game” on loan repayment. The more students borrow, the bigger are colleges’ revenues. Thus, the current federal loan program provides perverse incentives for colleges to push loans onto students without considering ability to repay. Weak disclosure rules facilitate this. ISAs, on the other hand, impose discipline on education providers where they provide some portion of the financing. If the

¹ Stephen Burd, et al., *Decoding the Cost of College: The Case for Transparent Financial Aid Award Letters* (uAspire, June 2018), www.newamerica.org/education-policy/policy-papers/decoding-cost-college.

student does not succeed, those providers will not achieve a return on their contribution.

To their credit, many ISA providers are taking disclosure seriously, though issues have risen underscoring the imperative for government standards to ensure transparency around this new financing innovation.² Purdue even requires students participating in its ISA program to pass a quiz to help ensure they understand their obligations. But, as ISAs become more mainstream, there is the potential for unscrupulous providers to enter the market. Disclosure rules will help avoid a repeat of the transparency problems plaguing traditional loans and provide meaningful opportunities for students to compare the terms of different ISA offerings.

Minimum income threshold. ISAs typically set a minimum income threshold. When a student's income dips below this amount, payments are set to \$0 until income climbs back above the threshold again. The proposed ISA Student Protection Act sets this minimum threshold at 200% of the federal poverty line (\$25,520 in 2020). The idea is to relieve financial pressure on students who may be unemployed or have low income, since making any payment may be burdensome for students in that situation.

However, most ISA programs voluntarily set a minimum income threshold considerably higher than the parameters set in the bill. For instance, the program at General Assembly sets a threshold of \$40,000, and other coding boot camps have gone as high as \$60,000. ISA providers find that voluntarily setting a minimum income threshold increases student confidence in the education on offer: If

² National Consumer Law Center, "Advocates File Complaint with FTC; Urge Enforcement Action Against Vemo Education for Its Deceptive Marketing of Income-Share Agreements to Students," June 1, 2020, www.nclc.org/media-center/advocates-file-complaint-with-ftc-urge-enforcement-action-against-vemo-education-for-its-deceptive-marketing-of-income-share-agreements-to-students.html.



Clear disclosure requirements around terms, combined with the ability of students to discharge ISA obligations in bankruptcy, will promote competition and have a powerful disciplining effect on ISA providers that try to impose overly burdensome terms.

the student's earnings don't exceed a certain amount, the school doesn't get paid.

Lawmakers should think carefully about prescribing limits considerably different from those currently offered in the market. The lowest minimum income threshold permitted by law could become a market norm if Congress gives it a stamp of approval, even if lawmakers themselves intend for minimum income thresholds that low to be outliers. Government-set limits could become a rationale for much more onerous terms, since they have the seal of government permissibility.

Clear disclosure requirements around terms, combined with the ability of students to discharge ISA obligations in bankruptcy, will promote competition and have a powerful disciplining effect on ISA providers that try to impose overly burdensome terms. It may not be necessary for lawmakers to prescribe a minimum income threshold, and it could be counterproductive if ISA providers were to migrate to government-mandated limits instead of letting market competition drive terms that will likely be much better for students.

Percentage of income required. Another component of ISAs is the percentage of income students are required to repay if their earnings exceed the minimum threshold.

The proposed ISA Student Protection Act cap of 20% is considerably higher than the current norm in the ISA market. Notably, it applies to all income, not just amounts above the 200% federal poverty line threshold, and could lead to unaffordable payment burdens, particularly for graduates in high-expense areas.

Take a graduate living in Baltimore, where living expenses for a single household are around \$30,000, with taxes adding another \$9,000. A student earning the average starting salary for a college graduate of about \$49,000 would have around \$10,000 left over for discretionary expenses. Yet a 20% payment of the student's total income would consume all of that discretionary spending money and then some. Government approval of charging an onerous 20% of total income could give unscrupulous ISA financiers "cover" for abusive terms.

At the same time, participants with higher incomes could manage a larger share of income, and providers may wish to exploit this fact to cross-subsidize lower-earning participants. Thus, leaving some flexibility in law for high percentages may be warranted. Alternatively, lawmakers could create a safe harbor for payment terms that are closer to market norms. ISAs with terms within the safe harbor range would generally not be subject to enforcement actions. ISAs with terms outside the safe harbor range would not be banned, but the CFPB would have authority to bring enforcement cases against those providers if their ISA terms are unfair, deceptive, or abusive. This is similar to the approach used by the CFPB in mortgage credit. Innovation outside the safe harbor parameters is permitted but subject to the CFPB's ability to bring enforcement actions against egregious practices.

Overall cap and time limit. Generally, ISA participants will no longer be required to make payments after their

cumulative payments have reached a certain multiple of the original amount received. General Assembly, for instance, caps total payments at 1.5 times the amount of tuition. If a participant does not reach this overall cap, the ISA obligation eventually expires after a specified period of time. Regardless of how much they have paid, the student is completely freed from their obligation after this point.

The proposed ISA Student Protection Act does not set a maximum overall cap, but it does set a maximum time limit of 30 years. If an ISA requires a high percentage of income, the maximum time limit is less than 30 years. Most current ISA programs specify much shorter time limits. General Assembly has a limit of four years, and Purdue has a limit of 10.

If ISAs ever expand to very expensive educational programs, such as medical schools, the 30-year limit might seem more reasonable. But as with other ISA parameters, lawmakers should be wary of giving an implicit stamp of approval to ISAs with 30-year time horizons, as not all are justifiable. Notably, even our troubled federal student loan program offers repayment options discharging payment obligations after 20 years (10 years for those with careers in public service).

If policymakers must regulate parameters, an alternative solution would be to set a maximum overall cap on payments as a multiple of tuition. This would be more akin to state usury laws that apply to traditional loans. But the best disinfectant is sunlight: Robust disclosure requirements and bankruptcy protections will do more to shield students than direct regulation of parameters will. Nongovernment organizations can also play an important role in defining emerging best practices, such as Social Finance's "Student Bill of Rights."³

³ "Student Bill of Rights," Social Finance, accessed February 12, 2021, www.socialfinance.org/student-bill-of-rights.



A federal framework for consumer protection will ensure students are not harmed by unscrupulous providers.

It will also give colleges and funders the regulatory certainty they need to invest in the model.

ISAs hold a great deal of promise, especially compared to traditional loans. But any financial product can be abused, as we learned during the 2008 mortgage meltdown, and we continue to learn from the many problems with traditional student loans. A federal framework for consumer protection will ensure students are not harmed by unscrupulous providers. It will also give colleges and funders the regulatory certainty they need to invest in the model.

However, government should exercise care in setting parameters that could end up being far more burdensome to students than the practices that currently prevail in the market. It is better to impose robust disclosure obligations and guarantee the ability to discharge ISAs in bankruptcy, possibly combined with an overall cap on a student's repayment obligation as a multiple of the original amount borrowed. This would allow for more innovation and customization of ISA funding arrangements, without the appearance of creating government templates that may encourage less advantageous terms than the market would provide.

As traditional colleges and educational startups across the nation continue to prove, ISAs can help students escape the burdens of traditional student loans and enable new forms of education entirely. If designed correctly, smart consumer protections will help the model expand. Congress should do its job to help this promising new area of education finance grow.



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PAYING IT FORWARD

ADAPTING THE CAREER IMPACT BOND INTO A PUBLIC POLICY TOOL

/ TRACY PALANDJIAN /

The pandemic, for all the misery it has caused, has been instructive. One key lesson: We need better, faster, and more agile mechanisms to train the workforce of the future.

The economic recovery requires new thinking to reinvigorate economic opportunities, close intransigent skills gaps, and strengthen American competitiveness. We need to

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make smarter investments in people to help open doors and enable those who have been disenfranchised and overlooked get new skills and better jobs. And we need to do so while closing the racial and gender gaps that persist throughout the workforce, rebuilding pathways to economic mobility and ensuring that they're available to everyone.

INVESTING IN PEOPLE

Reshaping the economy is a generational effort—and an urgent task.

We know that jobs—and companies—go where talent is available. And yet we also know that millions of jobs remain unfilled due to the skills gap.¹

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To harness all of this potential, we need to rethink the way we pay for training.

¹ "Social Finance: Trainers Make the Grade When Students Get Good Jobs," April 8, 2021, in *Managing the Future of Work*, Harvard Business School, podcast, Libsyn audio, 31:12, www.hbs.edu/managing-the-future-of-work/podcast/Pages/podcast-details.aspx?episode=18645182.

INNOVATING WITH CAREER IMPACT BONDS

Today, students bear nearly all the risk that comes with pursuing career education and training. They take out loans, pause full-time jobs, and bet it all on higher wages in the future. Even if a good job doesn't come through, the burden of student debt remains unabated. Despite standard 10-year federal repayment plans, it typically takes twice that to pay off a bachelor's degree.² As of 2020, 45 million Americans collectively owed nearly \$1.6 trillion in student loan debt, of which \$86 billion is held by Americans over 60 years of age.³

New ways of paying for workforce training can help redistribute that risk and align stakeholders around student success. We can fix part of what's wrong with how we finance education and training while strengthening student supports and protections.

That's the idea behind the Career Impact Bond (CIB). It's a holistic financing model that brings together income share agreements and wraparound support to ensure that people who face barriers to education and employment are able to upskill and find good jobs in our changing economy. In a CIB, there's downside protection for learners. CIBs pay for the cost of the training programs and wraparound services on behalf of the student; students then pay back the costs over time as a percentage of their wages—only if they get and keep jobs at salaries above a certain threshold. Repayment is capped at a certain dollar amount and duration, and a Student Bill of Rights ensures that all parties are committed to student protections.

² One Wisconsin Institute, *Survey Results: Impact of Student Loan Debt on Homeownership Trends and Vehicle Purchasing*, June 13, 2013, <https://onewisconsinnow.org/institute/research/impact-of-student-loan-debt-on-national-economy>.

³ Zack Friedman, "Student Loan Debt Statistics in 2020: A Record \$1.6 Trillion," *Forbes*, February 3, 2020, www.forbes.com/sites/zackfriedman/2020/02/03/student-loan-debt-statistics.



This is a model that's intended to eliminate barriers to access. Most loans use credit scores as the primary eligibility factor. Career Impact Bonds, by contrast, tie access to potential.

This is a model that's intended to eliminate barriers to access. Most loans use credit scores as the primary eligibility factor. CIBs, by contrast, tie access to potential. This helps more people—especially people with limited financial assets and limited professional experience—get the skills they need to find good jobs and better wages.

And CIBs go beyond covering tuition. They don't just help get people into training; they also help students get through it. When it comes to access, persistence, and completion, financial barriers are just one part of the problem: Students also need food and housing security, child care, and transportation. CIBs start with the problem and then design customized student-centered solutions—such as emergency aid funds, case managers, transportation subsidies, even living expense coverage—to maximize students' ability to succeed.

Training providers, at the same time, have skin in the game. They are not paid based on how many students enroll; they are paid when students attain and maintain employment. Through a deferred fee structure, funding to training providers is tied to student outcomes. If learners get into good jobs, everyone wins.

PAYING IT FORWARD

The first CIBs have been backed by impact investors. What if—in addition to the private sector—states and local governments invested in Career Impact Bonds?



Career Impact Bonds can adapt to local priorities: supporting people leaving incarceration, or the long-term unemployed, or people living in neighborhoods still dealing with the legacy of redlining. And they can focus on industries of the future—careers that align with economic development goals and employer needs.

Governments' economic and workforce development mandates are broad and complex. They need to encourage job growth while helping constituents build the skills needed for those jobs—often in the context of tight budgets.

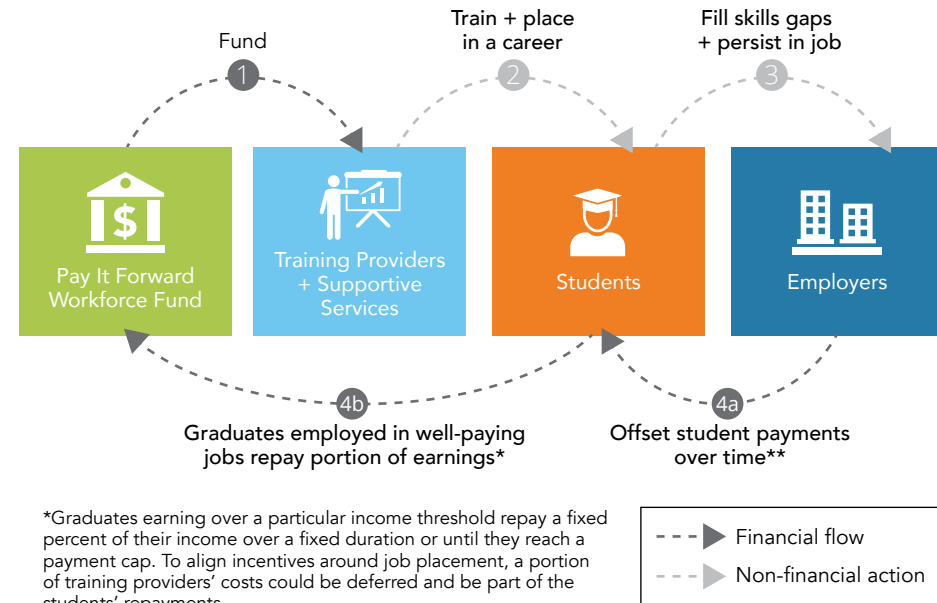
Career Impact Bonds, designed and funded by the public sector, can bolster these twin mandates. CIBs can adapt to local priorities: supporting people leaving incarceration, or the long-term unemployed, or people living in neighborhoods still dealing with the legacy of redlining. And they can focus on industries of the future—careers that align with economic development goals and employer needs. Meanwhile, CIBs create both funding sustainability and accountability for outcomes, aligning workforce funds with long-term student outcomes. If students are successful at getting into well-paying jobs, then their repayments will support future students.

We call these Pay It Forward Funds: publicly backed Career Impact Bonds that recycle funds based on the employment outcomes of students.

In the fall of 2020, New Jersey became the first state to announce the development of a Pay It Forward Fund.⁴ At the time of publication of this book, Ohio and another four

states have similar efforts underway.⁵ Most blend public, philanthropic, and corporate funding to invest in resilient, high-demand fields, such as clean energy, information technology, advanced manufacturing, and health care. These are jobs of the future—jobs that offer a pathway to the middle class and that will continue to drive our evolving economy.

/ FIGURE 1 /
Pay It Forward Fund Overview



*Graduates earning over a particular income threshold repay a fixed percent of their income over a fixed duration or until they reach a payment cap. To align incentives around job placement, a portion of training providers' costs could be deferred and be part of the students' repayments.

**Where appropriate, employers may choose to repay the Pay It Forward Workforce Fund directly for placement and retention outcomes.

This model creates a sustainable, outcomes-focused approach to workforce training that benefits all stakeholders. State and philanthropic funders can achieve policy goals, ensure accountability for results, and maximize the financial sustainability of their funds. Students can access new, promising training programs without taking

⁴ Tom Bergeron, "Murphy to Propose Pay It Forward Fund during Budget Address," *ROI-NJ*, February 23, 2021, www.roi-nj.com/2021/02/23/finance/murphy-to-propose-pay-it-forward-fund-during-budget-address.

⁵ Steve Lohr, "Job Training That's Free Until You're Hired is a Blueprint for Biden," *The New York Times*, April 7, 2021, www.nytimes.com/2021/04/07/business/job-training-work.html.



All Pay It Forward Funds focus on getting more people into well-paying jobs while aligning incentives and fairly sharing the costs and risks of training.

on undue risk: If they don't get a job that pays at least the minimum income threshold, they do not have a repayment obligation. Training providers' incentives are aligned with those of learners: They get flexible, multiyear growth capital to scale up training but recover all their costs only when learners graduate and earn good wages. Employers, for their part, can access reliable pipelines of skilled, diverse workers, filling talent gaps while improving retention.

The model offers flexibility for partners to adapt specific terms to meet their objectives and constraints. For example, some companies contribute to tuition repayment on behalf of their employees, strengthening retention. Each Pay It Forward Fund has its own eligibility criteria, and repayment terms vary across programs and industries. All Pay It Forward Funds focus on getting more people into well-paying jobs while aligning incentives and fairly sharing the costs and risks of training.

Importantly, the CIB can contribute to a more equitable recovery. Nationwide, accelerating changes in the nature of work have put disproportionate strains on people of color, people in low-wage jobs, and those with lower educational attainment. If we don't act, people bearing the brunt of the pain throughout the pandemic will continue to be the first to suffer and last to recover.

NEW TOOLS FOR A MORE RESILIENT AND EQUITABLE WORKFORCE

As we look toward economic recovery, the urgency to reinvigorate and reimagine our workforce system has never been greater.

Through Pay It Forward Funds, New Jersey, Ohio, and other states will invest in tens of thousands of low-income individuals—helping them access effective training programs and wraparound supports, succeed, and secure well-paying jobs in high-demand, growing industries. This is part of how we renew our social contract to restore economic mobility, build economic resilience, and shape a more equitable nation.



Tracy Palandjian is CEO and co-founder of Social Finance, an impact investing and advisory nonprofit that builds innovative partnerships and investments to measurably improve lives. For more than a decade, she has led the development of innovative financing tools such as the Social Impact Bond and the Career Impact Bond. Prior to Social Finance, Palandjian worked at McKinsey & Company, Wellington Management Company, and The Parthenon Group.



In an era of declining economic mobility, it's critical to rethink our education and training systems to reopen pathways to the middle class. *Workforce Realigned* brings together innovative ideas from a diverse set of leading thinkers—policymakers, employers, philanthropists, higher education leaders—to build smarter, more accountable partnerships that place worker outcomes at the center.

DR. RAJ CHETTY, William A. Ackman professor of public economics, Harvard University



We must build an equitable future for everyone. New, sophisticated partnerships are emerging that expand access to training and help workers to be successful, broadening and diversifying the talent pipeline. Innovative ideas, like the case studies presented here, provide a roadmap for business leaders as they adapt to a fast-changing economy and uncover better ways to find and retain great people.

LATA REDDY, senior vice president of inclusive solutions, Prudential Financial and chair, The Prudential Foundation



America's declining economic mobility and mounting student debt crisis are a direct result of systemic failures in education, training, and employment. *Workforce Realigned* provides a blueprint—grounded in real-world examples—of a dynamic and equitable new system that promises to meet the needs of workers and employers and ensure that the tremendous public and private investment we make is well spent.

JIM SHELTON, chief investment and impact officer, Blue Meridian Partners and former deputy secretary, U.S. Department of Education

