



## **Performance Measurement and Return-on-Investment (ROI) In the Workforce Development System**

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### Summary

The question of how to measure the performance of workforce development programs has generated significant debate since the 1970s. So far, most federal programs have focused primarily on measures of employment retention and earnings. Recently, a few states and localities have tried to develop measures of “return on investment” (ROI) to assess the cost-effectiveness of services and their value to taxpayers and participants.

This paper examines current federal workforce program performance reporting requirements and their advantages and disadvantages. It also presents a case study of an initiative in Washington State to measure ROI for the workforce development system as a whole. Findings from this and other state innovations should help inform the next generation of workforce development performance measurement policies.

### Federal Policy Background

#### *Statutorily Required Workforce Performance Requirements*

Most (but not all) federal programs funding workforce development have statutorily defined performance measures. (Appendix A lists these required performance measures for 10 key federal programs funding workforce development.) While these measures have commonalities, they vary somewhat across programs:

- Programs at the Department of Labor (DOL), such as the Workforce Investment Act (WIA), primarily require measurement of employment placement, employment retention, earnings (earnings replacement for dislocated workers), and achievement of a credential.

- Vocational programs at the Department of Education (DoEd), such as the Carl D. Perkins Career and Technical Education Act,<sup>1</sup> tend to focus on skill, diploma, and credential attainment, in addition to employment placement and retention.
- The Temporary Assistance for Needy Families (TANF) program in the Department of Health and Human Services (HHS) has no performance measures, other than requiring states to maintain a certain percentage of recipients in defined work activities.
- The Food Stamp Employment and Training Program (FSET), in the Department of Agriculture (USDA), has no performance measures.

Other differences also exist. These include different requirements for time frames for measurement, for data sets to be used to calculate outcomes, and for the process for setting performance goals at the state and local level.

These differences—alone or together—can impose significant costs on state and local government, as well as training providers, in the set-up and maintenance of systems to capture data for the disparate measures. In addition, the divergent measures mean policymakers lack information about how the system as a whole is functioning.

#### *Common Measures Policy*

In an effort to minimize these disparities, the White House Office of Management and Budget (OMB) began in 2002 to develop a policy to apply a set of common measures across programs with similar goals. Job training and employment was one program area identified as needing attention.

Since then, DOL's Employment and Training Administration (ETA) has issued guidance documents to implement the common measures policy in employment and training programs under its jurisdiction. The most recent guidance was issued in February 2006.<sup>2</sup> Appendix B contains a list of common measures for ETA programs.

The common measures policy applies to all DOL programs, including WIA (Adult, Dislocated Worker, and Youth), Wagner-Peyser/Employment Service, and Trade Adjustment Assistance (TAA). The measures are nearly identical to those required under WIA, with the exception of the earnings measure—earnings gain is the statutory measure and average earnings is the common measure.

Another difference is that the common measures apply to all participants in these programs. This is not the case for the WIA statutory performance measures, which apply only to participants receiving intensive and training services (not self-service and informational assistance).

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<sup>1</sup> Renamed in 2006 by Public Law 109-270 from the Carl D. Perkins Technical and Vocational Education Act.

<sup>2</sup> Training and Employment Guidance Letter (TEGL) 17-05.

States have recently begun to experiment with using the WIA common measures to replace the statutory measures. Pennsylvania was the first state to do so—through a waiver initially granted in 2004<sup>3</sup> and recently extended through June 30, 2007.<sup>4</sup> In 2006, the District of Columbia also took action—requesting public comments on a proposal it had drafted—to request such a waiver.<sup>5</sup>

Other federal departments with programs affected by the common measures policy have not yet implemented it. For example, DoEd, which also has jurisdiction over some training programs (such as the Perkins program), has yet to issue any guidance about the implementation of the common measures policy.

### *Other Performance Initiatives*

Several other performance initiatives have been developed recently, at the federal and state levels. These include the Program Assessment Rating Tool (PART), developed by OMB, and the Integrated Performance Information (IPI) initiative, developed through a collaborative state process.

PART—launched in 2002 to inform the federal budget process—gives programs one of five ratings (results not demonstrated, ineffective, adequate, moderately effective, and effective) based on scores in four categories (program purpose and design, strategic planning, management, and results). By 2005, nearly 800 programs had received PART analysis, including many training and education programs.

The PART process has raised concerns both inside and outside of government. The Government Accountability Office (GAO) has criticized PART as a labor-intensive process that has shifted the focus of agencies' strategic planning from long-term goal setting to short-term executive budget and planning needs,<sup>6</sup> as well as for a lack of consultation with key stakeholders.<sup>7</sup>

Analysts outside of government have also raised concerns about PART findings, particularly that certain types of programs tend to fare worse than others. Competitive grant and block grant programs, for example, are more likely to be rated as “results not demonstrated” and “ineffective” than other types of programs.<sup>8,9</sup>

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<sup>3</sup> U.S. Department of Labor waiver web page, [http://waivers.doleta.gov/lettersState\\_pdfview.cfm?fileID=PA2003\\_governorResponse](http://waivers.doleta.gov/lettersState_pdfview.cfm?fileID=PA2003_governorResponse).

<sup>4</sup> U.S. Department of Labor waiver web page, [http://waivers.doleta.gov/lettersState\\_pdfview.cfm?fileID=PA2005\\_governorResponse](http://waivers.doleta.gov/lettersState_pdfview.cfm?fileID=PA2005_governorResponse).

<sup>5</sup> District of Columbia Department of Employment Services, <http://newsroom.dc.gov/show.aspx/agency/does/section/2/release/8915/year/2006/month/7>.

<sup>6</sup> Government Accountability Office, *Performance Budgeting: PART Focuses Attention on Program Performance, but More can Be Done to Engage Congress*, (Washington, 2005), p. 5.

<sup>7</sup> *Ibid.*, p. 8.

<sup>8</sup> Adam Hughes and J. Robert Shull, *PART Background*, (OMB Watch, Washington, 2005), p. 5.

<sup>9</sup> Eileen C. Norcross, *An Analysis of the Office of Management and Budget's Program Assessment Rating Tool (PART)*, (George Mason University, Mercatus Center, Arlington, VA, 2005), pp. 10-12.

IPI—led by Washington State (with funding from DOL and assistance from the Ray Marshall Center for the Study of Human Resources at the University of Texas)—brought together representatives of six states<sup>10</sup> through the National Governors Association to explore strategies for integrating performance information across workforce development programs and the levels of government involved. Appendix C contains a list of IPI’s recommended workforce performance measures.

### *Criticisms of WIA Performance Measurement Requirements*

WIA is currently the single largest source of federal funding for workforce development services, accounting for about \$3.0 billion in federal funding in FY06. Its performance measures have been scrutinized and critiqued since they were adopted.

The critiques have focused on several main issues:

- The data are not reliable. A lack of consistent definition of outcomes has led to variations in reporting.<sup>11</sup>
- The data are not comprehensive. Because states are not required to report on all participants, the data provide an incomplete picture of the system’s outcomes.<sup>12</sup>
- The data are not timely. Because the data have a significant time lag (18 to 30 months), they do not present information about current performance.<sup>13</sup>
- The short-term outcomes measured by current performance requirements have little or no relationship to long-run effects on employment or earnings.<sup>14</sup>
- The lack of adjustment for the type of participant being served—for their economic or demographic characteristics or known barriers to employment, for example—has encouraged “cream skimming” participants, where caseworkers are more likely to enroll participants who would have done well without the program.<sup>15,16</sup>

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<sup>10</sup> Florida, Michigan, Montana, Oregon, Texas, and Washington.

<sup>11</sup> Government Accountability Office, *Workforce Investment Act: Labor Should Consider Alternative Approaches to Implement New Performance and Reporting Requirements*, (Washington, 2005), p. 12.

<sup>12</sup> *Ibid.*

<sup>13</sup> Government Accountability Office, *Workforce Investment Act: States and Local Areas Have Developed Strategies to Assess Performance, but Labor Could Do More to Help*, (Washington, 2004), p. 3.

<sup>14</sup> Burt S. Barnow and Jeffrey A. Smith, “Performance Management of U.S. Job Training Programs,” in *Job Training Policy in the United States* edited by Christopher J. O’Leary, Robert A. Straits, and Stephen A. Wandner, (W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, 2004), p. 47.

<sup>15</sup> *Ibid.*, pp. 32-33.

<sup>16</sup> WIA reauthorization bills passed in the House (H.R. 27) and Senate (S. 1021) during the 109<sup>th</sup> Congress (2005-06) envisioned imposing a new adjustment requirement.

### *Promise of ROI-Type Measures*

Another identified shortcoming of current workforce development performance measures, particularly in WIA, is that they do not allow an assessment of cost-effectiveness. ROI approaches, growing in popularity in evaluating social welfare programs, hold promise in adding a new quantitative element in performance measurement.

ROI measures, which assess cost-effectiveness, can provide clear information to policymakers about how much return taxpayers are receiving from their investments in publicly funded programs. Returns can be measured in terms of both increased tax revenues contributed by participants in the programs and decreased social welfare spending on their behalf as a result of program participation.

Some states have begun analyzing ROI data in their WIA programs and beyond. Appendix D summarizes some recent findings.

### *Disadvantages of ROI-Type Measures*

ROI measures also have some drawbacks and operational challenges, including:

- A lack of common definitions and time frames and variations in accounting practices and reporting approaches across multiple programs and agencies can hamper the data aggregation necessary for measuring ROI. Adjusting data to overcome this can be time-consuming and difficult.
- The desire to show positive ROI can create a temptation to overestimate benefits and underestimate costs attributable to the program(s).
- ROI findings may not satisfy policy makers who believe that the only way to measure a program's effectiveness is through scientifically rigorous random assignment evaluation studies.

### Case Study of Washington State

For more than 15 years, Washington State has been working toward a uniform system of performance measurement for all of its state and federally funded workforce development programs. As part of this system, the state Workforce Training and Education Coordinating Board (WTECB) is required to measure the net impacts of each of the programs. To do this, the board has created a scientifically rigorous method to measure workforce development ROI, which has become highly regarded in the state for its accuracy.

The effort has increased the credibility and political capital of workforce development programs in the state, particularly in the legislature, even though it has resulted in a lower reported return than some stakeholders expected. Lifetime returns (including participant

benefits and increased tax receipts) for participants in WIA programs were measured at about \$7-8 for every \$1 in public funds invested in 2006.<sup>17</sup> Other programs ranged from about \$4 to \$127 in returns.

### *Creating the Measurement System*

In 1991, the Washington legislature approved a bill creating WTECB, charging it with coordinating the many agencies and programs involved in workforce training and establishing data collection and reporting systems for them. The statute required the board to perform “scientifically based outcome evaluations of the state training system” every two years and “scientifically based net-impact and cost-benefit evaluations of the state system” every five years.<sup>18,19</sup>

From 1994 to 1996, the board devised a methodology for the evaluations after meeting extensively with the agencies administering the programs under its jurisdiction. The statutory requirement to develop measurement standards across the entire state training system and the existing relationships among agencies assisted the board in creating the measures and the methodology. Both created incentives for compromise and consensus on the methodology for the net-impact study.

### *Methodology and Findings*

The board ultimately chose a quasi-experimental method of analysis of exiters from each of the programs. In addition, the board chose to use wage records to measure earnings. All of the participants were statistically matched with similar participants in the Employment Service program to create an administrative comparison group. An equation using regression analysis was conducted to compare outcomes for the two groups, taking into account the similarities and differences among participants. Finally, the board discounted the returns by 3 percent a year.

The study evaluated the costs and benefits to individuals and the public separately. The costs to the public measured in the equation were the program expenditures. Benefits measured included:

- Decreases in receipt of Unemployment Insurance (UI).
- Decreases in public assistance (TANF, Medicaid, and Food Stamps).
- Increases in Social Security and Medicare payments, federal income tax, and state income and sales tax.

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<sup>17</sup> Washington State Workforce Training and Education Coordinating Board, *2006 Workforce Training Results* (Olympia, 2006), p. x.

<sup>18</sup> Revised Code of Washington: Chapter 28C.18.

<sup>19</sup> Although the statute calls for an evaluation every five years. The net-impact is actually performed every four years to coincide with the publication of the biennial outcome evaluation.

A 2006 evaluation found that during the third year after participation in publicly funded workforce development programs, the payoffs to education and training were strong and pervasive, with employment impacts positive for all programs. Findings included:<sup>20</sup>

- Most programs increased the average lifetime earnings of participants.
- Lifetime participant benefits far exceed public costs for each program (with the exception of adult basic education/ESL).
- Estimated increases in tax receipts alone outweigh public costs for six of the 11 programs studied.
- Many of the programs were also found to reduce reliance on social welfare (specifically, TANF, food stamps, and medical benefits).

The rigorous nature of the methodology generated an ROI that was lower than some expected. Some advocates were used to ROI measures that claimed all outcomes, not just net impacts, as benefits caused by their program. On the other hand, the ROI measurement increased the credibility of the board and workforce development advocates with the legislature. The results showed that the short-term benefits of most public training programs outweighed their costs to the public. In the long term, all programs (except adult education without job training) had benefits that outweighed their costs.

### *Challenges*

Although the process of developing a net impact analysis was fairly harmonious and successful, the WTECB did face challenges. The single biggest hurdle in designing the workforce ROI measure and creating an overall integrated performance management system was that the federally required measures are different for each program. This makes requiring an additional integrated system of performance management at the state level a much larger burden to staff at all levels of implementation.

Another challenge was the differences in perspectives between those at the state and local levels. Local practitioners were interested in immediate information they could use in day-to-day management, but the ROI measure is intended to convey policy-level information for lawmakers, the governor's office, and agency directors. Still, the board believed that involving local practitioners in the process was important, although this led to some disappointment that the time and effort spent on these measures would not meet the need of local managers for real-time measures.

### *Current Status*

Overall, the Washington net-impact/ROI measure has been successful in assessing the benefits provided by the state workforce system both to participants and society. The

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<sup>20</sup> Washington State Workforce Training and Education Coordinating Board, *2006 Workforce Training Results* (Olympia, 2006), pp. ix-x.

results have shown consistent positive impacts from all the programs, except for adult education without any job training.

### Additional Reading

Hollenbeck, Kevin, *Net Impact Estimates of the Workforce Development System in Washington State* (W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, July 2003).

Government Accountability Office, *Workforce Investment Act: Labor Should Consider Alternatives to Implement New Performance and Reporting Requirements* (Washington, 2005).

Government Accountability Office, *Workforce Investment Act: States and Local Areas Have Developed Strategies to Assess Performance, but Labor Could Do More to Help* (Washington, 2004).

Heinrich, Carolyn J., "Performance Management in Federal Employment and Training Programs," *Focus* (Volume 23, Summer 2004), pp. 20-26.

King, Christopher T. and Dan O'Shea, *Estimating Return-on-Investment (ROI) for Texas Workforce Boards: Lessons Learned and Next Steps* (Ray Marshall Center for the Study of Human Resources, Austin, TX, 2003).

Ray Marshall Center for the Study of Human Resources, *Proposed Approaches to Workforce Development Performance Measurement* (Austin, TX, 2005).

U.S. Department of Labor, Training and Employment Guidance Letter 17-05, [http://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=2195](http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=2195).

Washington State Workforce Training and Education Coordinating Board, *Integrated Performance Information for Workforce Development* (Olympia, 2005).

Washington State Workforce Training and Education Coordinating Board, *Measuring Our Progress* (Olympia, 2005).

Washington State Workforce Training and Education Coordinating Board, *2006 Workforce Training Results* (Olympia, 2006).

### For More Information

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**Appendix A**  
**Current Statutorily Required Performance Measures**  
**For Workforce Development Programs**

<b>Program</b>	<b>Department</b>	<b>Measures</b>
WIA Adult & Older Youth (19-21)	Labor	<ul style="list-style-type: none"> <li>• Entry into unsubsidized employment</li> <li>• Retention in unsubsidized employment six months after employment entry</li> <li>• Earnings change six months after entry into unsubsidized employment</li> <li>• Credential rate among those who enter into unsubsidized employment</li> </ul>
WIA Dislocated Worker	Labor	<ul style="list-style-type: none"> <li>• Entry into unsubsidized employment</li> <li>• Retention in unsubsidized employment six months after employment entry</li> <li>• Earnings replacement rate six months after entry into unsubsidized employment</li> <li>• Credential rate among those who enter into unsubsidized employment</li> </ul>
WIA Younger Youth (14-18)	Labor	<ul style="list-style-type: none"> <li>• Attainment of basic skills and work readiness or occupational skills</li> <li>• Attainment of high school diplomas and their recognized equivalents</li> <li>• Placement and retention in postsecondary education or advanced training, or placement and retention in military service, employment, or qualified apprenticeship</li> </ul>
Wagner-Peyser/ Employment Service	Labor	<ul style="list-style-type: none"> <li>• Entered employment rate</li> <li>• Employment retention rate at six months</li> <li>• Job-seeker customer satisfaction</li> <li>• Employer customer satisfaction</li> </ul>
Trade Adjustment Assistance	Labor	<ul style="list-style-type: none"> <li>• Re-employment rate</li> <li>• Employment retention rate</li> <li>• Wage replacement rate</li> </ul>
Perkins Career and Technical Education (post-secondary measures) <sup>21</sup>	Education	<ul style="list-style-type: none"> <li>• Student attainment of challenging career and technical skill proficiencies, including student achievement on technical assessments that are aligned with industry standards, if appropriate and available</li> <li>• Student attainment of an industry-recognized credential, a certificate, or a degree</li> </ul>

<sup>21</sup> As revised by §113(b)(1)(B) of Public Law 109-270, the Carl D. Perkins Career and Technical Education Improvement Act of 2006.

Perkins, continued		<ul style="list-style-type: none"> <li>• Student retention in post-secondary education or transfer to a baccalaureate program</li> <li>• Student placement in military service or apprenticeship programs or placement or retention in employment, including placement in high skill, high wage, or high demand occupations or professions</li> <li>• Student participation in, and completion of, career and technical education programs that lead to employment in non-traditional fields</li> </ul>
Adult Education & Family Literacy	Education	<ul style="list-style-type: none"> <li>• Demonstrated improvements in literacy skill levels in reading, writing, and speaking English; numeracy; problem solving; English language acquisition; and other literacy skills</li> <li>• Placement in, retention in, or completion of post-secondary education, training, unsubsidized employment, or career advancement</li> <li>• Receipt of a secondary school diploma or its recognized equivalent</li> </ul>
TANF	Health & Human Services	None—performance generally measured through changes in caseload and the number of recipients participating in federally defined work activities
Food Stamp Employment & Training	Agriculture	None
Vocational Rehabilitation	Education	<p>For employment:</p> <ul style="list-style-type: none"> <li>• Change (real and percent) in employment.</li> <li>• Competitive employment—the achievement of employment with earnings equivalent to at least the federal or state minimum wage</li> <li>• Employment achieved by individuals with the most significant disabilities</li> <li>• Earnings ratio—the average hourly earnings of all individuals in competitive employment compared to the average hourly earnings of all employed individuals in the state</li> <li>• Self-support—increases in the number of those exiting the program who report earned income as their largest single source of support</li> </ul>

**Appendix B**  
**Common Measures for ETA Programs<sup>22</sup>**

<b>Program</b>	<b>Measures</b>
WIA Adult	<p>Entered employment first quarter after exit quarter</p> <p>Employment retention in second and third quarter after exit quarter</p> <p>Average earnings in second and third quarter after exit quarter</p>
Dislocated Workers	<p>Entered employment first quarter after exit quarter</p> <p>Employment retention in second and third quarter after exit quarter</p> <p>Average earnings in second and third quarter after exit quarter</p>
Youth	<p>Placement in employment or education in the first quarter after the exit quarter</p> <p>Attainment of degree or certificate by the end of the third quarter after the exit quarter</p> <p>Literacy and numeracy gains</p>

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<sup>22</sup> Attachment A to TEGL 17-05.

**Appendix C**  
**IPI-Recommended Common Measures<sup>23</sup>**

<b>Category</b>	<b>Measure</b>
Labor Market Results for Participants	<p>Short-term employment rate—percent of participants employed during second quarter after exit</p> <p>Long-term employment rate—percent of participants employed during fourth quarter after exit</p> <p>Earnings level—median earnings second quarter after exit</p>
Skill Gains	Credential completion rate (within one year)
Results for Employers and the Economy	<p>Repeat employer customers</p> <p>Employer market penetration</p>
Return on Investment	<p>Taxpayer return on investment—net impact on tax revenue and social welfare payments compared to the cost of services</p> <p>Participant return on investment—net impact on participant earnings and employer-provided benefits compared to the cost of services</p>

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<sup>23</sup> Washington State Workforce Training and Education Coordinating Board, *Integrated Performance Information for Workforce Development: A Blueprint for States* (Olympia, 2005), pp. iii-iv.

**Appendix D**  
**Comparison of State ROI Measurement Methodologies<sup>24</sup>**

<b>State/Locality</b>	<b>ROI Finding</b>	<b>Benefits measured</b>	<b>Costs Measured</b>
Santa Ana, California, Workforce Investment Board	\$2.72-3.29 in 2003 for adults and dislocated workers in WIA program	Income annualized based on wage gains, increases in tax receipts (federal and state income, sales, and payroll), increased economic activity	WIA expenditures, grants, and additional contributions
Colorado	\$1.05 in 2004 in WIA adult program	Annualized wage gains from 2 <sup>nd</sup> and 3 <sup>rd</sup> quarter	Program expenditures
Idaho	\$2.41 for adults and \$4.03 for dislocated workers in 2004 in WIA program	Estimated increase in state and federal income taxes, increased FICA payments, reduced public assistance (TANF and food stamps) pre- and post-program earnings	Program expenditures
Kansas	\$1.69 for adults and \$2.76 for dislocated workers in 2004 in WIA program	Wage at entry into employment	Program expenditures
Michigan	\$2.00 for adults and \$2.92 for dislocated workers in 2004 in WIA program	Avoided welfare costs, avoided food assistance costs, increased federal and state income tax revenue	Program expenditures
Minnesota	\$2.61 in 2004 in WIA adult program	Wage gains	Program expenditures

<sup>24</sup> Unless otherwise noted, these findings are taken from state WIA annual reports.

Texas <sup>25</sup>	\$6 for those served in 2001 in 18 of 28 local workforce investment areas projected for a 5- and 10-year period	Employment, earnings, and employer productivity increases	Expenditures in publicly funded workforce development programs, including WIA, TANF, and Food Stamp Employment and Training
Washington <sup>26</sup>	Ranges from \$4.00 to \$127.50 in lifetime (to age 65) participant benefits and increased tax receipts for every public \$1 spent on participants who left the programs during the 2003-04 and 2001-02 program years	Earnings and employee benefits less foregone earnings during program participation and Social Security, Medicare, federal income, and state sales taxes generated by increased participant earnings to age 65	State and federal program costs per participant

<sup>25</sup> Christopher T. King *et al.*, *Return-on-Investment (ROI) Estimates for Workforce Services in Texas, State Fiscal Year 2000-2001: Composite Workforce Development Board* (Ray Marshall Center for the Study of Human Resources, Austin, TX, 2003).

<sup>26</sup> Washington State Workforce Training and Education Coordinating Board, *2006 Workforce Training Results* (Olympia, 2006), p. x.