



***The Impact of Welfare Reform on Nonprofits and  
the People They Serve in Delaware***

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## EXECUTIVE SUMMARY

This study assesses the extent to which the devolution of welfare reform (known as A Better Chance or ABC) has affected the ability of nonprofits in Delaware to respond effectively to client needs and the nature of changes in nonprofit organizational structures, administrative processes, and inter-organizational relationships. Data collection included a mailed survey to social service programs, three focus groups, and in-depth interviews with welfare reform contractors.

Our research provides evidence that welfare reform policy changes have produced unforeseen consequences for nonprofit sector capacity and inter-organizational relationships in Delaware. We found that surveyed agency staff spend increasing amounts of time on welfare rules that affect their clients, particularly child care, workfare, sanctions, and job searches. Requests for basic needs and emergency assistance have increased since welfare reform was enacted, while documentation and paperwork are now significant administrative burdens. Three themes emerged from our focus groups: that agencies are seeing an increase in demand for help with basic needs, that the central foci of welfare reform – decreasing welfare dependence, enforcing work, and establishing penalties for noncompliance – have impacted agencies' work with clients and that since welfare reform it is more difficult to give clients the help they need.

In-depth interviews with nonprofits contracted to provide welfare reform services revealed that contractor agency clients are affected by a range of welfare rules and regulations relating to eligibility for services, access to services, and logistical obstacles such as transportation and child care, which require agency staff intervention. The ABC contracts entail significant administrative work due to documentation and reporting requirements associated with pay-for-performance contracts, which also result in cash flow and infrastructure problems. Agencies that lost or changed contracts saw increases in staff turnover and lower staff morale. We found that several factors shape the dynamics of the state/nonprofit relationship in welfare reform contracting: 1) financial capability and performance accountability of nonprofit organizations, 2) competition with for-profit service providers and among larger and smaller nonprofits, and 3) the role of nonprofits as advocates in the policy making process.

## SUMMARY OF FINDINGS

This project assesses the impact of welfare reform on nonprofit organizations in Delaware. Using surveys, focus groups and in-depth interviews, the study explores the extent of changes produced by welfare reform on sector capacity to respond to client needs and the nature of changes in nonprofit organizational structures, administrative processes, and inter-organizational relationships.

Our findings provide evidence that welfare reform policy changes have produced unforeseen consequences for nonprofit sector capacity and inter-organizational relationships in Delaware. Survey respondents represent small and medium sized agencies, with only 16 percent having budgets over \$1 million.

***Agency staff spend increasing amounts of time on child care, workfare, sanctions, and job searches.***

Statewide, about a third reported that more than three-quarters of their clients are African American and more than three-quarters said that their clients use some kind of public assistance program. Focus group participants represent larger, statewide organizations, but have similar clients.

***Agencies are seeing an increase in demand for help with basic needs.***

Similar to other studies (Abramovitz, 2002; Reisch & Bischoff, 2000; Reisch & Sommerfeld, 2001), we found that surveyed agency staff spend increasing amounts of time on welfare rules that affect their clients, particularly child care, workfare, sanctions, and job searches. Requests for basic needs, emergency assistance and other services have increased since welfare reform was enacted, while documentation and paperwork are now significant administrative burdens. Several aspects of inter-organizational relationships have also increased, including referrals, collaboration, and use of outreach services.

Three themes emerged from our focus groups: that agencies are seeing an increase in demand for help with basic needs, that the central foci of welfare reform – decreasing welfare dependence, enforcing work, and establishing penalties for noncompliance – have impacted agencies' work with clients and that since welfare reform it is more difficult to give clients the help they need.

***Since welfare reform it is more difficult to give clients the help they need.***

Welfare reform contracts are held by one for-profit firm that specializes as a contractor to government agencies, MAXIMUS, Inc, a local affiliate of a national nonprofit (Salvation Army, Delaware region), two campuses of the state community

college system (Delaware Technical and Community College), a faith-based agency operating in Wilmington (Ministry of Caring), a statewide agency that provides family support, employment and HIV/AIDS services (Children and Families First), and two organizations providing substance abuse treatment (a regional community and migrant services organization, Delmarva Rural Ministries, and a Wilmington-based substance abuse treatment program, Brandywine Counseling). We also interviewed several former contractors, a local affiliate of a national nonprofit network (Goodwill of Delaware and Delaware County), a third Delaware Technical and Community College campus, a community center in Wilmington (West End Neighborhood House), and an organization that provides housing, education, child care and crisis alleviation services to the Latino community (Latin American Community Center). The average budget of the nonprofit contractors we interviewed is \$6.7 million, with a range from \$1.8 million to \$12.6 million.

In-depth interviews with nonprofits contracted to provide welfare reform services revealed that contractor agency clients are affected by a range of welfare rules and regulations relating to eligibility for services, access to services, and logistical obstacles such as transportation and child care, which require agency staff intervention. ABC contracts entail significant administrative work due to documentation and reporting requirements associated with pay-for-performance contracts, which also result in cash flow and infrastructure problems. All contractors reported substantial procedural learning curves and agencies that lost or changed contracts saw increases in staff turnover and low staff

***Contractor agency clients are affected by a range of welfare rules and regulations relating to eligibility for services, access to services, and logistical obstacles.***

***There is significant administrative work due to documentation and reporting requirements associated with pay-for-performance contracts.***

morale. Similar to other studies (De Vita, 1999; Martinson & Holcomb, 2002; McConnell et al., 2003), we found that several factors shape the dynamics of the state/nonprofit relationship in welfare reform contracting: 1) financial capability and performance accountability of nonprofit organizations, 2) competition with for-profit service providers and among larger and smaller nonprofits, and 3) the role of nonprofits as advocates in the

policy making process.

The hope that devolution would bring greater autonomy and flexibility to local nonprofits has not become a reality (De Vita & Capitani, 1998; De Vita, 1999).

Delaware nonprofits note that decisions about performance measures and funding are made without their input and lack

***Devolution has brought more red tape not less.***

the flexibility that local providers desire for addressing local client needs. Accounting and reporting requirements have become more complicated and burdensome under welfare reform. From the nonprofit provider's perspective, devolution has brought more red tape not less.

***Delaware's pay-for-performance contracts result in high incentives to perform, high risk for contractors, significant cash flow problems for contractors, and present substantial operational challenges for both the state and contractors.***

While cost-reimbursement welfare services contracts still predominate nationwide (GAO, 2002), Delaware relies exclusively on performance-based contracts to pay employment services providers. Similar to other studies (McConnell et al., 2003), our research indicates that Delaware's pay-for-performance contracts result in high incentives to perform, high risk for contractors, significant cash flow problems for contractors, and present substantial operational challenges for both the state and contractors. Smaller organizations in our study did not have the financial resources to implement contracts that required them to cover significant expenses upfront or to weather a period in which expenses exceeded income. Similar to other studies (Brodkin et

al., 2002), in Delaware, short-term contracts and contract instability result in structural limits for contractors. While other studies show inconsistent patterns of performance by nonprofit, for-profit, and public agency contractors (Martinson & Holcomb 2002; McConnell et al., 2003; Sanger 2001), in the most recent Delaware contract cycles, the nonprofit and community college contractors achieved and exceeded performance targets more frequently than their for-profit counterpart. However, nonprofit contractors are acutely aware of the tension between meeting performance goals and providing individualized services as called for in their missions.

***Nonprofit and community college contractors achieved and exceeded performance targets more frequently than their for-profit counterpart.***

Although nonprofit providers perceive competition with for-profit service

providers as a significant threat, the extent of competition between nonprofits and for-profits varies by state and locality (Brodkin et al., 2002; Martinson & Holcomb, 2002; McConnell et al., 2003; Pavetti et al., 2000; Sanger, 2001). But the entrance of for-profit firms into areas regarded by many as the domain of the nonprofit sector has instilled a fear that nonprofits are losing their place in the community. In Delaware, three for-profit providers have received employment services contracts. Similar to the pattern noted by Sanger (2001), when caseloads declined and easier-to-place clients became scarce, two of the for-profit firms moved on. More contracts have been awarded to nonprofit organizations, but about half the contract dollars audited by the state were awarded to for-profit firms and another third to the state community college system, while the nonprofit contractors together received only a fifth (Delaware Office of Auditor of Accounts, 2001). Many, including our nonprofit contractor interviewees, see nonprofit agencies as more likely to meet the needs of their clients regardless of their contract obligations, while for-profits and public agencies are more likely to operate on a business model (Sanger, 2001; Brodkin et al., 2002). The declining participation of community-based organizations associated with performance-based contracts and for-profit competition poses threats to a healthy service sector and to meeting the needs of a diverse client base.

***More contracts have been awarded to nonprofit organizations, but about half the audited contract dollars were awarded to for-profit firms and another third to the state community college system, while the nonprofit contractors together received only a fifth.***

***Government contracts raise potential barriers for nonprofits to exercise their voice in policy debates.***

The political climate of the 1990s and the devolution of policy making and program authority to states and local government raised potential barriers for nonprofits to exercise their voice in public debates. In line with the findings of the national Strengthening Nonprofit Advocacy Project (SNAP) study (Arons & Bass, 2002), our research showed that government funding may be a significant barrier to public policy participation. Those of our interviewees that do participate are troubled by their perceived inability to gain access to or legitimacy in policy making arenas. If a key tenet of devolution is to decentralize decision making, then monitoring who participates in the political process and how

voices are heard will be an important part of assessing policy making under devolution and welfare reform.

Devolution under welfare reform appears to have intensified Delaware nonprofits' linkages with government and has affected their capacity to engage in public policy activities. One indication of this diminished capacity is that while several interviewees expressed criticisms of state welfare reform policies and contracting practices few welfare reform contractors are actively involved in advocacy efforts.

Similarly, the contracting relationship appears to have a chilling or deterrence effect on open and candid communication between the state and its contractors. Delaware interviewees reported that they are not consulted about the development or revision of contract performance measures and goals and see lack of responsiveness to their suggestions about how to improve reporting systems and communication.

Contracting welfare reform may prove to be a hazardous enterprise in the context of what Brodtkin et al. (2002) term "disjointed federalism," and one that comes at a high social price. In every state, thousands of families depend on the prospect that some combination of public and private services will improve their chances of making it as workers. The extent to which either services or the private market can offer sufficient opportunities for economic inclusion is debatable. But without services or the assurance of income support, there is only the market.

Welfare reform was constructed with relatively clear policy features, but an uncertain institutional foundation. In this respect, it has similarities to prior welfare reforms that put policy first and institutional practice later (Brodtkin, 1999). Discussions about TANF re-authorization offer an opportunity to seriously reconsider institutional strategies. Along with McConnell et al. (2003) and others, we recommend that states (in this case, Delaware):

- ✓ allocate sufficient resources so that privatization is done well,
- ✓ develop contracts that include performance incentives but limit risk to contractors,
- ✓ that contract scope encourage competition (including participation by community-based organizations), and
- ✓ that public and private agencies find effective ways to coordinate services.

Other potential changes include:

- ✓ lengthening the contract period,

- ✓ instituting quality control in the referral process (from DSS and between contractors),
- ✓ streamlining the electronic reporting system, and
- ✓ establishing parity among contracts (in terms of payment levels at different payment points).

The challenge remains to create policy provisions and institutional arrangements that can enhance the capacity of organizations - both public and private - to deliver policy and then can hold them accountable for the content and quality of what they do.

## INTRODUCTION

The private provision of government-funded services has a long history in the United States (Cashin, 1999; Salamon, 1993; Whitaker & Time, 2001). Under the banner of devolution, welfare reform legislation enacted in 1996 gave states broad latitude to reorganize welfare in order to make work its focal point. The Personal Responsibility and Work Reconciliation Act of 1996 (PRWORA) significantly changed U.S. social policy, replacing AFDC with block grants to the states that set time limits on receipt of assistance and devolved responsibility to the states. Other changes included an expanded private sector role in implementation and work requirements for recipients that limit and complicate access to education, training, child care, medical, nutritional, and other family support services (Bloom 1997). The underlying message associated with these changes is that governmental action should be directed to changing recipient values and behaviors - promoting self-sufficiency and work - rather than providing a basic material needs safety net. Two processes, devolution (reducing federal policy power and responsibility and increasing that of the states and local governments) and privatization (used here to mean contracting out services to private organizations), are hallmarks of what many analysts term the “neoliberal” agenda of downsizing the state and minimizing its role in regulating and ameliorating the operation of the market (Kingfisher, 2001; Morgen, 2001).

***Welfare reform is characterized by devolution (reduced federal policy power and responsibility) and privatization (used here to mean contracting out services to private organizations).***

Many states have used this new flexibility not only to change the types of services they provide, but also to rethink the mechanisms by which these services are delivered (Winston, Burwick, McConnell & Roper, 2002). Rather than expanding in-house capability to respond to the new mandates of welfare reform, many welfare agencies sought to make welfare more employment-focused by transferring some or all of their TANF work program responsibilities to other agencies and forging new organizational connections with outside service providers (Brodkin, Fugua & Thoren, 2002; Gais, Nathan, Lurie & Kaplan, 2001).

As a result, PWORA has led to the establishment of new service delivery systems for welfare recipients that often include restructured staff responsibilities within the welfare agency and greater involvement by other organizations outside the welfare agency (De Vita & Capitani, 1998; Sanger, 2001; Martinson & Holcomb, 2002). The dynamics of the government nonprofit relationship are seen as shaped by several factors, including 1) the financial capability and performance accountability of nonprofit organizations, 2) competition with for-profit providers and among larger and smaller nonprofits, and 3) the role of nonprofits as advocates in the policy making process (De Vita, 1999; Sanger, 2001; McConnell et al., 2003, Winston et al., 2002). These revamped TANF service delivery networks have brought challenges in defining inter- and intra- organizational responsibilities, ensuring adequate communication and coordination, and establishing performance accountability (Martinson & Holcomb, 2002).

***TANF service delivery networks have brought challenges in defining inter- and intra-organizational responsibilities, ensuring adequate communication and coordination, and establishing performance accountability.***

***Welfare reform has intensified economic and social problems for residents of low-income neighborhoods and created increased demand for service delivery.***

There is also evidence that these policy changes have intensified economic and social problems for residents of low-income neighborhoods and created increased demand for service delivery (Abramovitz, 2002; Reisch & Bischoff, 2000; Reisch & Sommerfeld, 2001). In addition, welfare reform is being implemented based on unexamined assumptions about the role of work and family in recipients' lives and an underestimation of the supports necessary to achieve and sustain economic self-sufficiency (Scott, Edin, London, & Mazelis, 2000).

The current study assesses the extent to which the devolution of welfare reform responsibilities has affected the ability of nonprofits in Delaware to respond effectively to client needs and the nature of changes in nonprofit organizational structures, administrative processes, and inter-organizational relationships. This report includes results of a mailed survey to a stratified sample of 380 social service nonprofit programs in the state, three focus groups with a subset of social service agencies, and in-depth interviews with eight nonprofits, one for-profit, and one public agency which hold or

have held state welfare reform contracts. Data were also collected from the analysis of agency documents and the review of the minutes of monthly Local Coordinating Team meetings (including state and contractor organization representatives), selected Abt Associates Delaware's A Better Chance evaluation reports (Fein & Thompson, 1996; Werner, Valente & Pocari, 2001), a state audit of ABC contracts (Delaware Office of the Auditor of Accounts, 2001), and a Mathematica Policy Research case study of privatization in six sites, including Delaware (McConnell et al., 2003). These sources provide a framework for drafting conclusions about the effects of welfare reform on nonprofit agencies in the state.

## LITERATURE REVIEW

As intermediaries between government bureaucracies and people who receive public assistance, nonprofit organizations are critical but often overlooked players in welfare reform. Attention typically centers either on policy and administrative changes that result from welfare reform or the effects of these changes on low-income women and children (Berkowitz, 2001; Brauner & Loprest, 1999; Cancian, Haveman, Meyer & Wolfe, 2000; Children's Defense Fund, 1998; Gais et al., 2001; Quint, Edin, Buck, Padilla, Simmons-Hewitt, & Valmont, 1999). However, getting an accurate picture of the government-nonprofit relationship at the state and local levels is an important component of understanding the strengths and weaknesses of this policy devolution (Hodgkinson, Ahn, Farrell, Krehely & Nelson, 2000). In addition, while welfare reform policies provide a context for assessing devolution, a broader issue that devolution poses is how nonprofits and government will redefine their current partnership (Salamon, 1999; Wolch, 1999).

***Nonprofit organizations are critical but often overlooked players in welfare reform.***

Welfare reform appears to be producing unforeseen consequences for nonprofit sector capacity and inter-organizational relationships (DeVita, 1999; Hodgkinson et al., 2000; Sanger, 2001). For example, Reisch and Bischoff (2000) discuss the effects of

***In Philadelphia, changes in client population, program goals, and inter-organizational relationships were seen.***

welfare reform on community-based organizations' ability to respond to client and community needs in a Philadelphia neighborhood with a high incidence of poverty. They report substantial changes in client population (increased demand for services by youth, people of color, and clients with multiple needs), program goals (greater emphasis on self-sufficiency in case

and program planning), and inter-organizational relationships for Philadelphia organizations (greater need for staff to engage in advocacy, access subsistence benefits for clients and obtain information about legislative and regulatory changes). They argue that their data indicate a need for enhanced organizational capacity to link single mothers and low-income families to meaningful job training, childcare, and subsistence resources through collaborative service arrangements as well as a need for long-term, stable funding commitments and substantial technical assistance if community-based

organizations (CBOs) are to develop culturally competent, effective services that correspond with changing parental roles mandated by TANF.

The results of a survey of 90 human services agencies in southeastern Michigan by Reisch and Sommerfeld (2001) also show that many Michigan nonprofits were unable to keep up with increases in client demands attributed to welfare reform. They demonstrate that current statutory requirements are detrimental for clients and staff, and that many clients are struggling to survive, especially people of color and those who are homeless, disabled, or in abject poverty. Their findings indicate that the effects can be seen in the increased need for foster care, the growing marginalization of substance abusers, lack of access to health care, the inability of many clients to obtain the survival skills needed to remain in the job market, and increased client referrals, especially for emergency services. The researchers also point to major structural impacts on nonprofits including changes in staffing workloads and responsibilities, increased client demand, increased client involvement in shaping agency programs, changes in the nature of their primary program activities, changes in the size of their budget and source of their funds, increased collaboration with other agencies, and increased government accountability/reporting requirements.

***In Michigan, many nonprofits were unable to keep up with increases in client demands attributed to welfare reform.***

The institutional study of the Project on Devolution and Urban Change is examining how 106 human service organizations in moderate to high poverty neighborhoods in four urban counties - Cuyahoga (Cleveland, Ohio), Los Angeles, Miami-Dade, and Philadelphia - were affected by welfare reform (Fink, Widom, Beaulaurier, Contreras, Dilley & Kissane, 2001). During the first year of welfare reform implementation, agency staff was generally aware of major changes in welfare policy but few expressed detailed knowledge of the policies. The overwhelming majority of the study respondents expressed negative or mixed views of welfare reform, particularly regarding work requirements in a declining economy. Changes in demand for education and training services were the biggest effect of welfare reform in this study, although agencies' experiences depended partly on the state and local welfare policies and how they were implemented. In contrast to Reisch and Bischoff's (2000), Reisch and Sommerfeld's (2001), and Abramovitz's (2002) and our findings, most of the basic needs

agencies in their sample did not report an increase in demand for food or other emergency services due to welfare reform (p. 18). They did find some evidence that demand for child care increased. Communication and information-sharing between welfare departments and social service agencies were seen to be crucial in a multi-site study. Some agencies reported that they had tried to influence the implementation of policies to benefit their clients (p. 22).

***Communication and information-sharing between welfare departments and social service agencies were seen to be crucial in a multi-site study.***

In-depth interviews with staff from 107 nonprofit human service agencies in the five boroughs of New York revealed that participating agencies served large numbers of

***In New York City:***

- ✓ ***Workers are shifting time and resources away from social services to welfare department mandates and spending significant amounts of time helping clients with welfare-related problems.***
- ✓ ***Agencies are modifying or eliminating operations, services and priorities as a result of welfare's changing rules.***

public assistance recipients and faced similar struggles with welfare reform policies and procedures that affected their capacity to deliver services effectively (Abramovitz, 2002). She found that workers are shifting time and resources away from social services to welfare department mandates and spending significant amounts of time helping clients with welfare-related problems. In addition, agencies are modifying or eliminating operations, services and priorities as a result of welfare's changing rules in New York City.

Her study documents how welfare reform has increased the economic and social insecurity of respondent agency clients in New York, where policy changes have made it both harder for low-income families to qualify for benefits and easier to lose them (p. 21). Workers have had to cope with the task of helping thousands of clients deal with the loss of basic cash benefits and the impact of welfare's penalties and work requirements. Requests for food assistance tripled in New York between 1997 and 2001 (p. 23). The majority of respondent agency workers spend increasing amounts of time on Medicaid and other health services. More than any other work rule, clients ask these nonprofit agency workers for help contending with the Work Experience Program (WEP). Also known as workfare, WEP requires that recipients "work off" their benefits by providing service to a

public or private agency (p. 19). As a result, client requests for help with childcare increased at the majority of the sampled agencies (p. 20).

As welfare-related caseloads, paperwork, and family crises have grown, workers in already strapped agencies have had to do more with less and manage with less cooperation from the local welfare office (p. 27). In addition, a number of respondent agencies have had to cut or reconfigure programs, scale back service goals, and alter core priorities (p. 41).

Devolution associated with welfare reform has also brought increased competition to the nonprofit sector. As the government-nonprofit relationship is redefined and government contracts out for more services, greater emphasis is being placed on the efficient and effective use of resources. While contracting has created a foundation leading to a permanent institutional role for nonprofits in some areas, for example, child welfare services (Young, Finch & Gonsiewski, 1981), other contracting arrangements have proved ephemeral and uneven (Sosin, 1990). On the whole, the consequences of contracting for efficiency and effectiveness remain a subject of debate (Kramer, 1994). In the case of welfare reform, the picture that is emerging is one of a marked shift toward private provision.

There are several benchmark studies of nonprofit organizations, welfare reform and devolution. Alexander (1999, 2000) found that the limited capacity of community-based and faith-based organizations to adopt the business-oriented approach required to meet expectations of government contracts in Ohio is limited by their financial and human resources and by the conflict that a market orientation can present to the nonprofit mission (p. 57). In a related article, Alexander, Nank, and Stivers (1999) assert that nonprofit organizations play a pivotal role in ongoing efforts to devolve federal government programs and transfer public responsibilities to the local level. On the basis of a multi-phase study of the impact of welfare reform on social service nonprofits in Cuyahoga County, Ohio, they question the capacity of nonprofits to serve as the public safety net in the manner implied by devolution proponents (p. 452).

***In Ohio, researchers found limited capacity of community-based and faith-based organizations to adopt the business-oriented approach required to meet expectations of government contracts.***

A recent study by Mathematica Policy Research on the role of intermediary

organizations in linking TANF recipients with jobs reports that more than two-thirds (67%) of intermediaries in their 20 study sites are well-established nonprofit organizations (Pavetti, Derr, Anderson, Trippe & Paschal, 2000).<sup>1</sup> The majority of the sampled nonprofits are of two types: 1) local entities or local affiliates of national organizations (e.g. the Urban League, Salvation Army, Goodwill, etc.) that have a long history of providing employment-related services to disadvantaged populations and 2) organizations with expertise in addressing the supportive service, and sometimes the employment needs of special populations such as ex-offenders, persons with disabilities, or persons who speak limited English (p. viii-ix). Implementation challenges revealed in a multi-site study include the importance of clearly defined roles and responsibilities and procedures for transferring information between organizations, risks in providing services to TANF clients due to wide variation in client referral mechanisms and practices, and lack of fit between the limited contracted services and the needs of clients. They point to several areas in need of further study, including how referrals to intermediaries are made, how intermediaries under contract to the same government entity interact with each other, and how the approach to and context of services differs across intermediaries (pp. xi, xiii, xiv).

***Implementation challenges revealed in a multi-site study include:***

- ✓ ***clearly defined roles and responsibilities***
- ✓ ***transferring information between organizations***
- ✓ ***risks in providing services to TANF clients***
- ✓ ***lack of fit between the limited contracted services and the needs of clients.***

***In Houston, Milwaukee, New York City and San Diego performance-based contracts are facilitating innovation and desirable management changes but are also motivating both nonprofit and private contractors to make service delivery choices that may compromise the well-being of clients in order to minimize costs.***

Under the auspices of the Brookings Institution, case studies in Houston, Milwaukee, New York City and San Diego have identified three trends that are critical to understanding the long-term impact of welfare reform on nonprofit organizations (Sanger, 2001). First, Sanger found that market incentives generated by the increasing

<sup>1</sup> Study sites include one urban and one rural site in ten states: Arizona (Phoenix, Yavapai), Arkansas (Little Rock, Jefferson), California (San Diego, Napa), Connecticut (Hartford, New London), Florida (Jacksonville, Suwannee), Minnesota (St. Paul, Olmstead), Nebraska (Omaha, Scotts Bluff), Ohio (Cleveland, Columbiana), Texas (San Antonio, Uvalde), and Virginia (Richmond, Wise) (p.2).

popularity of performance-based contracts are facilitating innovation and desirable management changes in many nonprofit providers. But they are also producing distortions of contractual intent by motivating both nonprofit and private contractors to make service delivery choices that may compromise the well-being of clients in order to minimize costs.

Sanger also found that the future of mission-driven nonprofits is “uncertain and worrisome. While systems of managed competition with the private sector are clearly improving the management, capacity, and performance of many fiscally sound nonprofits, many others are in danger of losing their distinctive public service missions” (p. 12). Third, she saw that market forces alone are likely to drive the large national for-profits into arenas where their comparative advantages make them dominant. When caseloads decline and easier-to-place clients are scarce, for-profit organizations are likely to move on to other human service areas where they can increase their market share, economies, and profits. Sanger concludes that the resulting reduced capacity of public agencies and the declining participation of community-based organizations pose threats to a healthy service sector and to meeting the needs of a diverse client base.

Researchers at the Urban Institute’s Assessing the New Federalism project have investigated the institutional changes and challenges associated with the implementation of welfare reform in 17 cities in 13 states (Martinson & Holcomb, 2002).<sup>2</sup> Many of the welfare agencies they studied have developed new staffing patterns within the welfare office; forged relationships with workforce development agencies and nonprofit community-based organizations to promote work among welfare recipients; and increased the use of performance-based contracting to manage these new relationships. To shift the focus of cash assistance from income maintenance to employment, some of the welfare agencies they studied restructured in-house staff responsibilities. Some sites integrated front line responsibilities for TANF eligibility determination and TANF work participation into a single staff position under the assumption that one worker (rather than

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<sup>2</sup> The study sites included Birmingham (Jefferson County), Alabama; Los Angeles, Oakland (Alameda County) and San Diego, California; Denver, Colorado; Miami (Dade County) and Tampa (Hillsborough County), Florida; Boston (Suffolk County), Massachusetts; Detroit (Wayne County), Michigan; Minneapolis (Hennepin County), Minnesota; Jackson (Hinds County), Mississippi; Jersey City (Hudson County), New Jersey; Buffalo (Erie County), New York; El Paso and Houston (Harris County),

two) can better assess and address the whole range of client needs, eliminate gaps in services due to coordination difficulties, and develop stronger case management relationships with clients (p. 8).

One major feature of the welfare service delivery system in more than half of their study sites is the increased involvement of workforce development agencies. These relationships may be contractual or based on memoranda of understanding or other partnership agreements. The welfare agency generally retains responsibility for eligibility determination and all financial grant matters. The workforce development agency in turn often contracts with community-based or other organizations to provide the employment-related services to TANF recipients. The common focus on employment masks some important differences between the two systems - such as overlapping, yet not identical target populations, service needs, and employment strategies - that can make organizational coordination or integration difficult (p.4).

Welfare agencies in the study sites contracted with a range of organizations to provide employment-related services to TANF recipients. Similar to Pavetti et al. (2000), the Urban Institute researchers found that the majority of the employment and support service contractors in their study sites are nonprofit, community-based organizations - either local entities or local affiliates of national organizations. These nonprofits typically include organizations with expertise in addressing employment or support service needs, or organizations focused on a special population, such as a certain ethnic group or a specific type of disability. Some of the welfare agencies in their sample contract directly with these community-based service organizations, while others work mainly with the workforce development agency, which in turn often contracts with community-based providers. In contrast to Sanger's (2001) findings, only a few of their study sites contract with for-profit organizations for client services, and the few that do so also contract with other organizations.

Although cost-reimbursement contracts still predominate nationwide (GAO, 2002), many of the

***Cost-reimbursement contracts still predominate nationwide.***

Urban Institute study sites relied exclusively on performance-based contracts to pay employment and service providers. The performance-based measures used in these

contracts are relatively consistent across the sites and rely on an array of outcomes include participation in program services, employment, retention, wage increases, and exits from TANF. Study sites' experiences with performance-based contracting suggest that administering a pay-for-performance reimbursement system is more complicated than administering a cost-reimbursement system. Reaching agreement between the welfare agency/workforce development agency and the contractors on measures and payment levels and obtaining needed data from contractors were difficult and time consuming in several of the study sites.

***Performance-based measures include:***

- ✓ ***participation in program services,***
- ✓ ***employment,***
- ✓ ***retention,***
- ✓ ***wage increases, and***
- ✓ ***exits from TANF.***

A study of contracts and grants awarded to intermediaries serving Chicago welfare recipients found that arrangements for providing welfare-to-work services in Chicago are quite complex; involving four separate governmental units and three levels of government, each nominally autonomous with respect to its contracting choices and practices (Brodkin et al., 2002). Although both state and city agencies distributed the bulk of their contract dollars to nonprofit organizations, the city allocated 43 percent of its funding for intermediaries to for-profits; while the state agency allocated 23 percent (p.2). However, the median for-profit firm received 32 percent more in public funds than the median nonprofit and was contracted to provide 25 percent more job placements for welfare recipients in Chicago (p. 16). They also found instability in contracting arrangements, with two-year contracts comprising 57 percent of all awards and only a third of contracts awarded for more than two years. About a quarter of these intermediaries managed to counteract the structural limitations of short-term contracts to acquire more sustained support, through extensions or supplement contracts. In Chicago, performance-based contracts were pegged to the terms on which federal law counted individuals as working and used financial incentives to reward individual work placements while also allowing basic per capita expenses for case management, job preparation and other services (p. 21).

***In Chicago, the median for-profit firm received 32 percent more in public funds than the median nonprofit and was contracted to provide 25 percent more job placements for welfare recipients.***

A recent Mathematica Policy Research study of privatization of TANF case management in six sites found implementation challenges in the following areas: aligning the often-differing goals of the public and private sectors, ensuring seamless transfer of clients between public and private agencies so that they do not “fall through the cracks,” and promoting good working relationships between staff at different agencies when tensions may arise over differences in work rules, organizational culture, and agency mission (McConnell et al., 2003: xxiii).<sup>3</sup>

The rationale for privatization was explored in each site. The most frequently given rationale for privatization is the belief that it will lead to better services and/or services being delivered more efficiently – due to increased competition, flexibility of private agencies and client choice. Privatization was seen as a way to add the capacity of new services quickly in response to welfare reform, without increasing the size of the government workforce (McConnell et al., 2003: xvi). They identified four factors that may increase competition: using a competitive rather than sole-source procurement, reducing the advantage of the incumbent contractor, increasing the pool of qualified potential bidders, and giving clients a choice of provider (p. xviii).

Several contractor types were observed at the study sites. For-profit firms (MAXIMUS and ACS) were contractors in five of the six study sites, while local affiliates of national nonprofits and local nonprofits were awarded contracts in three sites each. A community college, state agency and a tribal agency were found in one site each.

Four types of contract and payment structures were used in the study sites: pure pay-for performance contracts (contractors are compensated only after they achieve certain performance goals), cost-reimbursement contracts (providers receive payment for the expenses they incur), fixed-price contracts (providers receive a set fee regardless of performance or actual cost), and hybrid contracts (which combine elements of pay-for-performance with either cost-reimbursement or fixed price contracts). They conclude that decisions about payment structure can affect the welfare/workforce development agency and the contractors in several ways: providing incentives to

***Pure pay-for-performance contracts result in the highest incentives to perform, the highest risk for contractors, significant cash flow problems for contractors, and present the most operational challenges.***

<sup>3</sup> Study sites included Delaware, Hennepin County, Minnesota, Lower Rio Grande Valley, Texas, Palm

perform and the potential for unintended consequences, changing the distribution of risk between public and private agencies, affecting the contractor's cash flow and presenting operational challenges in administering the contract. Pure pay-for-performance contracts result in the highest incentives to perform, the highest risk for contractors, significant cash flow problems for contractors and present the most operational challenges (monitoring performance data, setting targets and payment amounts) (McConnell et al., 2003:47).

They recommend that states allocate sufficient resources so that privatization is done well, that procurement be fair and transparent, that contract scope encourage competition, that performance measurement be targeted to only a small number of key program goals, that contracts include performance incentives but limit risk to contractors, that state resources be allocated for effective monitoring, and that public and private agencies find effective ways to coordinate services (McConnell et al., 2003:xxiv).

Welfare reform has also changed the context of nonprofit agencies' work in ways that have affected nonprofits' involvement in advocacy. Since the 1996 welfare reform and the devolution of welfare responsibility, state and local governments have increasingly turned to nonprofits to provide more and more of the services previously provided by the public sector in the name of greater efficiency, cost-effectiveness, and local control (Alexander et al., 1999; Sanger, 2001; Withorn, 2001). However this increased nonprofit involvement in welfare reform has also served to increase nonprofits' dependence on state and local governments (Alexander et al., 1999; Salamon, 1993; Withorn & Jons, 1999). This deepening involvement with government since welfare reform may be a significant threat to welfare reform advocacy.

Researchers have documented that for many nonprofits engaging in advocacy efforts might be problematic given their relationship with the state (Alexander et al., 1999; Smith & Lipsky, 1993; Withorn & Jons, 1999). For some of these agencies even publicly criticizing the state is viewed as problematic. In their study of nonprofit organizations in Cuyahoga County, Ohio, Alexander et al. (1999) found that in Ohio nonprofit

***In Ohio, nonprofit agencies with strong linkages to county government were reluctant to speak frankly about the impact of county policies on their clients or client services.***

agencies with strong linkages to the county government were reluctant to speak frankly about the impact of county policies on their clients or client services. They note that “Although agency representatives would occasionally convey misgivings in private, they believed that agency relationships with the county were too important to jeopardize” (p. 461). Similarly, Withorn & Jons (1999), in a study of human service providers in Massachusetts, agencies were afraid to oppose the state for fear of jeopardizing their contracts. Although these agencies were facing increased demands on their resources because of welfare reform, they were intimidated about protesting (Withorn & Jons, 1999).

***In Massachusetts, agencies were afraid to oppose the state for fear of jeopardizing their contracts.***

***Agencies not holding welfare contracts in Michigan reported increased client advocacy.***

However, in their study of the impact of welfare reform on nonprofit agencies not holding welfare contracts in Michigan, Reisch and Sommerfeld (2001) found that more than half of the respondents (55%) reported that they had engaged in increased client advocacy during the preceding four years. Similarly, of the agencies responding to Abramovitz’s (2002) study in New York City, staff in about two thirds (62.3%) had become involved in advocacy work designed to change welfare policy.

***In New York City, staff in about two thirds (62.3%) of the agencies had become involved in advocacy work designed to change welfare policy.***

The cultural context of welfare service provision and the relationship between welfare workers and recipients have also received attention (Brodkin, 1997; Churchill, 1995; Cushman, 1998; Edwards, 1994; D’Amico, 1996; Hasenfeld & Weaver, 1996; Heyman, 1995; Hyatt, 1997, 2001; Kingfisher, 1996, 1998, 2001; Morgan, 2001; Myers, Glaser, & Mac Donald, 1998; Susser & Kreniske, 1987), while qualitative studies of the nature of the state/nonprofit contracting relationship are not common (Goldstein, 2001; Sandfort 1999). The existing studies show that devolution and privatization have shaped the work of welfare reform in complex ways.

Welfare workers are seen as active agents, giving meaning to and negotiating devolution, privatization, and the work of welfare reform (Hasenfeld & Weaver, 1996; Morgen, 2001). The actions of these “street level bureaucrats” (Lipsky 1980) are crucial,

from a public policy perspective and in the lives of the clients they serve. Lipsky argues that “although they are normally regarded as low level employees, the actions of most public service workers actually constitute the services delivered by government” (1980:3). Thus, how (and sometimes even whether) policy is implemented depends on the frontline workers who carry out policies in their day-to-day work (Churchill, 1995; Hasenfeld & Deaver, 1996; Myers et al., 1998). Brodtkin’s 1997 study of JOBS programs in Chicago in the early 1990s found that understaffed, under funded agencies with under skilled workers often meant that program ideals were not put into practice; clients, therefore, often did not get the assistance and support they needed to fulfill the promise of welfare reform. Similarly, Kingfisher’s 1996 study in Michigan concluded that workers were burdened by “outsized caseloads,” excessive paperwork and unrealistic expectations, all of which made them feel powerless and frustrated with their jobs and undermined their ability to provide the kind of services their clients needed. More recently, Morgen (2001) found that the incorporation of a private sector productivity model of worker and branch accountability and the transformation of agency mission from providing public assistance to fostering client self-sufficiency in Oregon were associated with high caseloads and conflicts between workers’ personal and professional values which they saw as different from the values of the agency, their clients, and policymakers.

***Understaffed, under funded agencies with under skilled workers often meant that program ideals were not put into practice.***

Many states and localities have articulated the goal of “changing the culture of the welfare office,” and contractors were seen as less entrenched in the old ways than public welfare agencies (Diller, 2000). Nonprofit service providers are expected to act as “bureaucrats with human faces,” while exercising their responsibilities in accordance

***Nonprofit service providers are expected to act as “bureaucrats with human faces.”***

with norms of professional authority and contract requirements. Yet, in order for them to retain their flexibility, innovation, and community-based approach, which are the assets that made them attractive as service providers in the first place, they are also required to be

responsive to client needs on a case-by-case basis. Some researchers suggest that the differing values of contractors and state welfare and workforce development agency

workers create conflicts about the way clients should be treated and regulated (Goldstein, 2001; Lafer, 1995; Sandfort, 1999).

In her work with a nonprofit housing organization in England, Edwards (1994) shows how it was the “‘common sense’ and ‘caring approach’” of the workers that, in their mind, distinguished them in a positive way from government officials, “bureaucrats,” who operated strictly “according to the rules” and were regarded as unable to empathize sufficiently with the clients they served (pp. 199-200).

Part of the appeal of contracting with nonprofit service providers lies in their image as self-governing entities that appear to operate independently of formal state structures. Some analysts argue that this relationship obscures the role that state action continues to play in the withdrawal of public resources and perpetuation of inequality (Roelofs, 1995; Wolch, 1990), while others contend that welfare reform has highlighted long-standing tensions within the world of nonprofit service agencies (McKnight, 1995; Sachs & Newdon, 1999; Wagner, 2000). Ann Withorn (2001) argues that nonprofit human service agencies have, since the beginning of the 20<sup>th</sup> century, embodied a classic, well-documented contradiction.

Service programs allowed professional and non-professional workers a chance to help people deal with a wide range of personal, economic, and social problems, and even, sometimes to support them in collectively addressing those problems. Yet nonprofit agencies have also been, to a greater or lesser degree, themselves a part of the system whereby public and religious organizations attempted to impose order - either the larger order of the political economy or the particular moral order of a specific religious faith - in exchange for service (p. 108).

## THE RESEARCH CONTEXT

Delaware is a small state with a total population of less than a million people. According to the 2000 Census, the state's Hispanic population has more than doubled since 1990, to 37,271, or about 5 percent of the population. African American residents, by comparison, were 19 percent of Delaware's population (U.S. Census, 2000). About two thirds of the state's population (63.8%) resides in New Castle County, the northern most county, which includes the city of Wilmington. Another 16.2 percent live in Kent County, where the state capital, Dover, is located. Moderate population growth is projected over the next 20 years, with the fastest growth occurring in the 60 to 79 cohort and in Sussex County, the southern most and most rural of the states' three counties. The state's unemployment level has hovered around four percent since 2000 (U.S. Bureau of Labor Statistics, 2003). Although still below national levels, the percent of Delaware children (under 18) in poverty rose from 11 percent to 16 percent between 1992 and 1998 (Curtis, Barnekov, Klar, Ernst, Clerkin & Campbell, 1999). The child poverty rate in Delaware reached 16.7 percent for the three year period, 1999-2001 (Kids Count in Delaware, 2002).

### DELAWARE AT A GLANCE

- ✓ *Fewer than 1 million residents*
- ✓ *Most people live in northern most part of state.*
- ✓ *Poverty level is below national levels but has risen in recent years.*

In 1986, Delaware instituted First Step, a mandatory employment and training program for AFDC and Food Stamps recipients. The First Step program was based on in-depth assessment of individual recipient's needs, a holistic approach to case management, and the premise that education and training provided a better key to long-term employability than up-front employment services. It provided basic life skills as well as academic and employment training. First Step closely anticipated the Family Support Act's JOBS program and, with relatively little adjustment, First Step became Delaware's JOBS program (Curtis, 1998).<sup>4</sup> From 1986 to 1995, basic skills and job

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<sup>4</sup> Technically, the First Step program was broader than JOBS, as it also served Food Stamps only recipients who were required to participate in employment and training.

search services were provided by seven nonprofit community-based contractors at 16 different sites (Fein & Marcus, 1996: 77).

Focus groups held with First Step employment and training contractors as well as visits to DSS and contractor offices by the Abt group in 1995 (with an eye toward ABC implementation) revealed numerous areas in need of improvement: appropriateness of referrals, clarification of responsibilities for key functions (e.g. case monitoring, reporting, job development), clarification of goals and performance criteria, DSS staff caseload burden and turnover, a more tightly-controlled approach to case management, increasing the automated client tracking system's user friendliness, strengthening reporting requirements for contractors and other non-DSS service providers, and increased uniformity and sharing of employability assessment and planning tools between First Step offices and contractors (Fein & Marcus, 1996: 73).

In a pilot study of the effect of welfare reform on nonprofit organizations in the Enterprise Community section of Wilmington,<sup>5</sup> Auger and Cousins (1998) and Cousins (1998) found an increase in demand for existing services, a shift in demand for the types of services provided, an increase in proportion of clients with multiple needs, an increase in the number and dollar value of welfare reform (ABC) contracts, fiscal and human resources challenges associated with the administration of performance-based ABC contract requirements (recently instituted at the time), increased competition for ABC contracts, and concerns about mission and goal displacement. A welfare reform impact survey conducted by the United Way Council of Agency Executives in 1999 revealed a 62 percent increase in requests for crisis alleviation services in New Castle County (37% increase statewide) and a 17 percent increase in requests for emergency housing in Kent County (4 percent increase statewide) from 1997 to 1998 (Lockaby, 1999). About a tenth (9.2%) of the service provider respondents to the 1999 Community Needs Assessment saw welfare reform as most likely to affect their ability to continue to provide services (Curtis et al., 1999: 110). Curtis has also examined the state's claims about ABC client

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<sup>5</sup> The Enterprise Community is a federally designated low-income area in the City of Wilmington comprising 11 of the city's 27 census tracts. Auger and Cousins (1998) report on interviews about contracting and privatization with 27 nonprofits in the Enterprise Community (including those studied by Cousins), while Cousins (1998) reports on interviews on welfare reform with six nonprofits with ABC contracts in the Enterprise Community.

outcomes (1998) and the strategies and effectiveness of local advocacy groups working to make changes in the ABC program (2001).

Surveys of low-income families in Delaware conducted in 1999 through 2002 show that many of these families (about a quarter of whom were receiving ABC) have serious unmet needs.<sup>6</sup> In 2001, more than four-fifths of the surveyed families (82.3%) turned to nonprofit agencies for assistance

***Surveys of low-income families in Delaware conducted in 1999 through 2002 show that many of these families (about a quarter of whom were receiving ABC) have serious unmet needs.***

and about a third of those who had lost ABC benefits had requested assistance from food banks or approached religious groups for help in the previous six months. Close to one in five surveyed families were unable to pay their rent and about a quarter had no health care for themselves or their families in the previous six months (Curtis, Eith & Breedlove, 2001). By 2002, fewer respondents (43.0%) were working at the time of the survey, the average hourly wage decreased by \$1.68 (to \$7.66 per hour), and the average number of hours respondents worked decreased by 7.9 hours (to 30.5 hours per week). About a fifth was unable to pay rent or afford food in the previous six months, 20.9 percent and 17.8 percent, respectively (Curtis, Scott, Breedlove & Copeland, 2002). These results correspond to the findings about increases in requests for basic needs reported in this study.

Delaware's A Better Chance (ABC) welfare reform program is administered by the Department of Health and Social Services (DHSS) through two administrative offices of the Division of Social Services (DSS) and 18 field offices, known as state service centers. Like many other states, DSS conducts eligibility and re-certification determinations. In partnership with the state's Department of Labor (DOL), they contract with nonprofit and for-profit organizations and public agencies for job readiness, job placement, job retention, workfare, and other services. DSS received assistance in developing the performance-based ABC

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<sup>6</sup> In 1999, with the assistance of 26 nonprofit agencies, we surveyed 276 low-income respondents (with incomes at or below 200 percent of the federal poverty level). In 2000, with the assistance of 20 nonprofit agencies, we surveyed 236 low-income respondents (using the same income screening criteria). In 2001, with the assistance of 20 nonprofit agencies, we surveyed 241 low-income respondents (using the same screening criteria). In 2002, with the assistance of 23 nonprofit agencies, we surveyed 285 low-income respondents (using the same screening criteria).

contracts from The Rensselaerville Institute (TRI). DSS also contracted with a national consulting firm, Abt Associates, Inc., for evaluation of the ABC program as well as the state's earlier employment and training

#### **WELFARE REFORM IN DELAWARE**

- ✓ *ABC welfare reform waiver program began in 1995*
- ✓ *49% caseload reduction through January 2003*

program, First Step. Similar to other states, Delaware has seen a significant reduction in the welfare caseload, a 49 percent reduction through January 2003.

Beginning in October 1995, Delaware's ABC welfare reform waiver program made sweeping changes in the AFDC program including, a 24 month time limit on cash assistance, followed by 24 months of workfare, required school attendance for minors, a required Contract of Mutual Responsibility (CMR) and related work requirements, a family cap, and required immunizations.<sup>7</sup> Following passage of PRWORA in 1996, all cash assistance recipients in the state were enrolled in ABC. Recipients retain a portion of child support, and of cash assistance if working, up to 75 percent of the poverty level, through an income disregard policy known as "fill-the-gap" budgeting. There are substantial, progressive, full-family, financial penalties for failing to meet CMR and work requirements. A third employment sanction results in permanent loss of eligibility for assistance (Curtis, 1998). In 1999, babies born to unmarried teen mothers became ineligible for cash assistance, the time clock on assistance for recipients meeting work requirements was stopped retroactive to 1995, and a diversion program was instituted. State legislation enacted in 1999 allows ABC recipients who are full time students in secondary, post-secondary, adult basic education, and vocational education programs to count their credit hours toward meeting the work requirement. In 2000, the ABC time limit was reduced to 36 months and the nature of assistance for new applicants was changed, eliminating cash assistance and substituting workfare. Although the ABC waiver expired in September 2002, the state uses Maintenance of Effort funds to continue the provisions which are not consistent with current federal TANF requirements.

Contracted and other services for ABC recipients are coordinated and managed by the ABC Welfare Reform Team consisting of DSS, the Department of Labor - Division

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<sup>7</sup> Workfare refers specifically to programs in which welfare recipients are required to perform unpaid work in return for welfare benefits. See Piven 1998 for criticisms of this approach.

of Employment and Training (DOL/E&T), the Delaware Economic Development Office (DEDO) - Workforce Development, and the Delaware Department of Transportation (DeIDOT). This team supervises services for ABC recipients including employment-related activities, family planning, parenting education classes, job search, job placement, and job retention assistance, workfare, academic remediation, teen stay-in-school/return-to-school program, non-medical substance abuse prevention and treatment, and transportation assistance. DSS also administers Food Stamps, Medicaid and the state's subsidized child care program, known as Purchase of Care.

## RESEARCH METHODOLOGY

The current study assesses the extent to which welfare reform has affected the ability of nonprofits to respond effectively to client needs and the nature of changes in nonprofit organizational structures, administrative processes, and inter-organizational relationships in Delaware. Research questions include: What are the effects of welfare reform on Delaware nonprofits' ability to respond to client and community needs? What changes, if any, have occurred in the nature and size of Delaware nonprofits' client populations or client outcomes? Have there been any changes in the missions of Delaware nonprofits, their organizational structures and administrative processes, their staffing patterns or their use of volunteers as result of changes in government funding associated with welfare reform? Are particular groups or organizational types affected differently? In what ways have nonprofits in Delaware engaged in collaborative efforts to influence the state's welfare reform policies and practices? How do Delaware nonprofits link advocacy with other social service responsibilities and relationships?

Using a participatory research model, the research team is promoting agency empowerment through the ongoing involvement of participating agencies in identifying the issues to be investigated and their needs for organizational development and change. Data collection strategies include a mailed survey, focus groups, in-depth interviews, and analysis of agency documents.

A mailed survey was fielded to a stratified sample of 380 social service nonprofit programs in the state, derived from the Delaware Association of Nonprofit Agencies (DANA) and United Way of Delaware membership lists, the Delaware Helpline database, the State Human Services Yellow Book, and other sources. Three focus groups, one in each of the state's three counties, were held with a subset of social service agencies. In-depth interviews with eight nonprofits, one for-profit, and three programs at one public

### RESEARCH METHODOLOGY AT A GLANCE

- ✓ *Mailed survey fielded to 380 social service nonprofit programs*
- ✓ *Conducted focus groups with a subset of social service agencies*
- ✓ *Interviews with current and former welfare reform contractors*
- ✓ *Analyzed agency documents and minutes from monthly meetings of contractors and state representatives.*

agency which hold or have held welfare reform contracts since 1997 were also conducted. Data were also collected from the analysis of agency documents and the review of minutes of monthly Local Coordinating Team meetings (including state and contractor organization representatives) held between 1998 and 2002, selected Abt Associates ABC evaluation reports (Fein & Thompson, 1996; Werner, Valente, & Pocari, 2001), a state audit of ABC contracts (Delaware Office of the Auditor of Accounts, 2001), and a Mathematica Policy Research case study of TANF privatization in six sites, including Delaware (McConnell et al., 2003).

The survey protocol covers the following topics: whether changes in state welfare programs have affected how agencies work with clients, what percentage of agency clients use public assistance programs, which ABC rules and regulations affect the clients agency workers see, agency staff training on ABC rules and regulations, how much time agency staff spend dealing with ABC procedures (including applications, sanctions, fair hearings, workfare, job search, helping clients understand ABC rules and regulations, and case closures), agency staff interaction with ABC workers, agency staff involvement in attempts to change ABC, whether demand for agency services or client outcomes have been affected by ABC, and what information, training, or other support or assistance agency staff and clients need to respond effectively to welfare reform changes. Focus groups covered similar topics as the mailed survey.

In-depth interviews with contractor organizations included questions about whether aspects of work (productivity, stress, morale, ability to help clients, ethical issues, job satisfaction) are affected by ABC, whether ABC affects agency operations (fit between client problems and agency services, increase or decrease in clients or programs, introduction of new services), whether ABC affects program operations (fund raising, staff training, staff skills, overtime, turnover, caseloads, paper work, use of existing services, need for new services, collaboration with other agencies), whether ABC has affected agency or program funding levels, whether the agency has participated in any activities to address changes in ABC, whether ABC has affected agency advocacy activities, and what information, training, or other support or assistance the agency staff and clients need to respond effectively to ABC.

Program managers from ninety-two (92) agencies completed and returned the survey, resulting in a return rate of 24.2 percent. The sample includes a diverse grouping of agencies such as community-based neighborhood centers, faith-based organizations, basic needs organizations, as well as larger, multipurpose agencies. Most of the nonprofit focus group participants were either local entities or local affiliates of national organizations that have a history of providing services to disadvantaged populations. Criterion based purposive sampling techniques were used so the findings of

***Surveyed agencies are small and provide basic needs services.***

***Focus group participants are larger local entities or affiliates of national organizations.***

this research are not generalizable to external populations since a random probability sampling approach was not used. However, this study does provide important information on how welfare reform has impacted nonprofit agencies in Delaware.

The surveys generated both quantitative and qualitative information regarding the breadth and depth of change experienced. Surveys were coded and analyzed using the Statistical Package for the Social Sciences (SPSS) and content analysis methods. Responses were analyzed along five different organizational dimensions: type of service provided, agency location, agency size (staff, budget) and client volume, proportion of clients served receiving public assistance, and proportion of racial minority clients served. Similar to other studies, we found that agency staff spend increasing amounts of time on welfare rules that affect their clients, particularly child care, workfare, sanctions, and job searches. Requests for basic needs and emergency assistance have increased since welfare reform was enacted, while documentation and paperwork are now a significant administrative burden.

Focus group transcripts were analyzed using content analysis methods. Three themes emerged from the focus groups: that agencies are seeing an increase in demand for help with basic needs, that the central foci of welfare reform – decreasing welfare dependence, enforcing work, and establishing penalties for noncompliance – have impacted agencies' work with clients, and that since welfare reform it is more difficult to give clients the help they need.

In-depth contractor interviews and the minutes of Local Coordinating Team meetings (attended by state and contractor representatives on a monthly basis) were also

***Contractor agencies are larger multi-service entities.***

analyzed using content analysis methods. Interviewees include a national for-profit with considerable welfare reform contracting experience (MAXIMUS, Inc.), two affiliates of national nonprofits (Salvation Army, Delaware Region and Goodwill of Delaware and Delaware County), three campuses of the local community college (Delaware Technical and Community College), and local and regional nonprofits (West End Neighborhood House, Latin American Community Center, Ministry of Caring, Children and Families First, Delmarva Rural Ministries and Brandywine Counseling).

The in-depth interviews revealed that contractor agency clients are affected by a range of welfare rules and regulations relating to eligibility for services, access to services, and logistical obstacles such as transportation and child care, which require agency staff intervention. ABC contracts entail significant administrative work due to documentation and reporting requirements associated with pay-for-performance contracts, which also result in cash flow and infrastructure problems. Agencies that lost or changed contracts saw increases in staff turnover and lower staff morale. Similar to other studies (De Vita, 1999; Martinson & Holcomb, 2002; McConnell et al., 2003), we found that several factors shape the dynamics of the state/nonprofit relationship in welfare reform contracting: 1) financial capability and performance accountability of nonprofit organizations, 2) competition with for-profit service providers and among larger and smaller nonprofits, and 3) the role of nonprofits as advocates in the policy making process.

## SURVEY AND FOCUS GROUP RESULTS

### Agency Characteristics

Of the 92 agencies responding to the survey, the vast majority (89.1%) reported that they provide one program service. Only a tenth (10.9%) of the organizations provide two or more program services. The major categories of program services or purposes identified by the agencies responding to the survey are shown in Table 1. Thirteen agencies identified their primary function or purpose as child care. Eleven agencies function as community/ neighborhood centers. Twelve agencies provide emergency/ transitional shelter services, 10 agencies offer food/ meals, and 11 agencies provide housing. Most of these agencies are basic needs agencies that provide support services to low-income families who cannot meet their basic needs without assistance. Fewer than 10 percent of the respondent programs are or have been welfare-to-work contractors so most of the surveyed agencies probably serve a broader population of low-income clients who may not ever have received welfare assistance. In comparison, among nonprofits statewide, educational institutions (18.0%) predominate, followed by multi-purpose human service organization (15.1%), recreation, sports leisure and athletics (6.0%), and housing and shelter organizations (5.7%) (National Center for Charitable Statistics, 2001).

**Table 1**  
**Type of Program Services Provided**

<i>Program Services</i>	<i>Number and Percentage of Agencies</i>
Child Care	13 (14.1%)
Community/ neighborhood center	11 (12.0%)
Emergency/ transitional shelter	12 (13.0%)
Food/meals	10 (10.9%)
Housing	11 (12.0%)

Due to rounding and multiple responses survey calculations do not total to 100 percent. The categories listed were identified by at least 10 percent of the agencies responding to the survey.

Two-fifths of the surveyed agencies identified their program's geographic service area as New Castle County and a third of the agencies serve the city of Wilmington (see Table 2). Approximately a fifth serves Kent County or Sussex County and 27.2 percent of the agencies provide services statewide. So while the sample includes nonprofit agencies which serve both urban and rural areas in Delaware more of the programs

responding to the survey serve either suburban New Castle County and/or the city of Wilmington. This finding corresponds with IRS data regarding the distribution of Delaware's nonprofit organizations by county. The majority of the nonprofit organizations in the state (approximately 60%) are located in New Castle County. Similarly, about two-thirds (63.5%) of Delaware's 796,165 residents live in the Wilmington-Newark Metropolitan area of New Castle County (U.S. Census Bureau, 2001).

In contrast to the survey sample most of the organizations participating in the focus groups are statewide organizations. Of the 12 people attending the focus groups, eight represented statewide organizations whereas of the agencies responding to the survey only about 27 percent provides services statewide. The remaining 25 percent of the focus group agencies have a local or county-level geographic service area. Thus, the agencies participating in the focus groups serve a broader population of Delaware residents than do the survey sample. Similar to the survey sample, none of the organizations represented in the focus groups are current welfare-to-work program contractors. However, all of the organizations represented at the focus groups have other federal, state, and local government funding such as the Social Services Block Grant, Community Development Block Grant, and Workforce Investment Act funds.

**Table 2**  
**Number of Agencies Surveyed, by Geographic Service Area**

<i>Location</i>	<i>Number and Percentage of Agencies</i>
Wilmington	31 (33.7%)
New Castle County	38 (41.3%)
Kent County	20 (21.7%)
Sussex County	19 (20.7%)
Statewide	25 (27.2%)

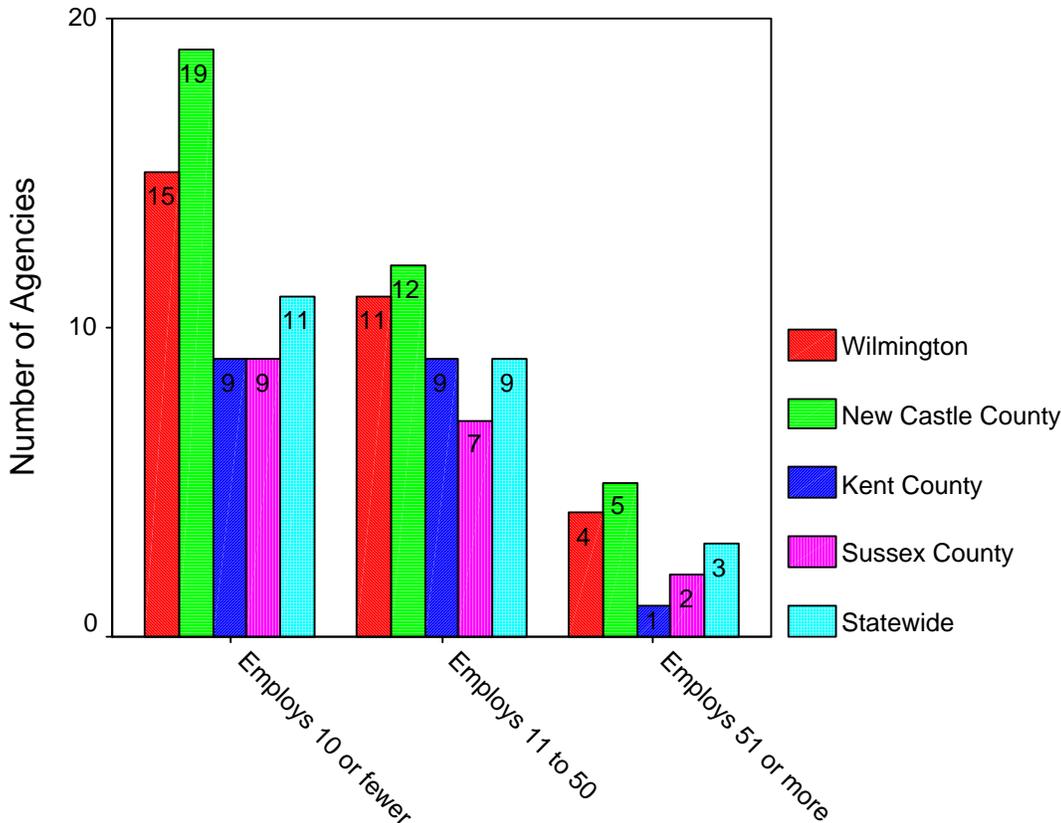
Due to rounding and multiple responses survey calculations do not total to 100 percent.

More than 50 percent of the respondent programs employ fewer than ten people. About 35 percent of the programs employ between 11 and 50 people, and fewer than 10 percent employ 51 or more people (see Figure 1). Overall, regardless of location most respondent programs in all areas of the state reported that they employ 10 or fewer paid staff.<sup>8</sup> This finding is consistent with the data on employment in Delaware's overall

<sup>8</sup> We did not collect staff, budget, source of funds, client caseload, client characteristics, or information

nonprofit sector. Most nonprofit agencies (over 88%) in Delaware employ fewer than 15 employees (DANA, 2002-2003).

**Figure 1**  
**Geographic Service Area, by Number of People Program Employs**



Using budget to gauge the size of a program, agencies were categorized as very small, small, medium-sized, or large (see Fink et al., 2001). Eleven (approximately 12%) of the programs have a budget of under \$50,000 (very small budgets), 32 (about 35%) have a budget of \$50,000 to \$249,999 (small), 29 (31.5%) have a budget of \$250,000 to \$999,999 (medium-sized), and 15 (16.3%) have a budget of \$1 million and over (large). Based on the size of their budget most of the programs responding to the survey are categorized as small or medium-sized. In comparison, 60 percent of DANA members have a budget of \$400,000 or less (DANA, 2003). Overall, this finding did not appear to

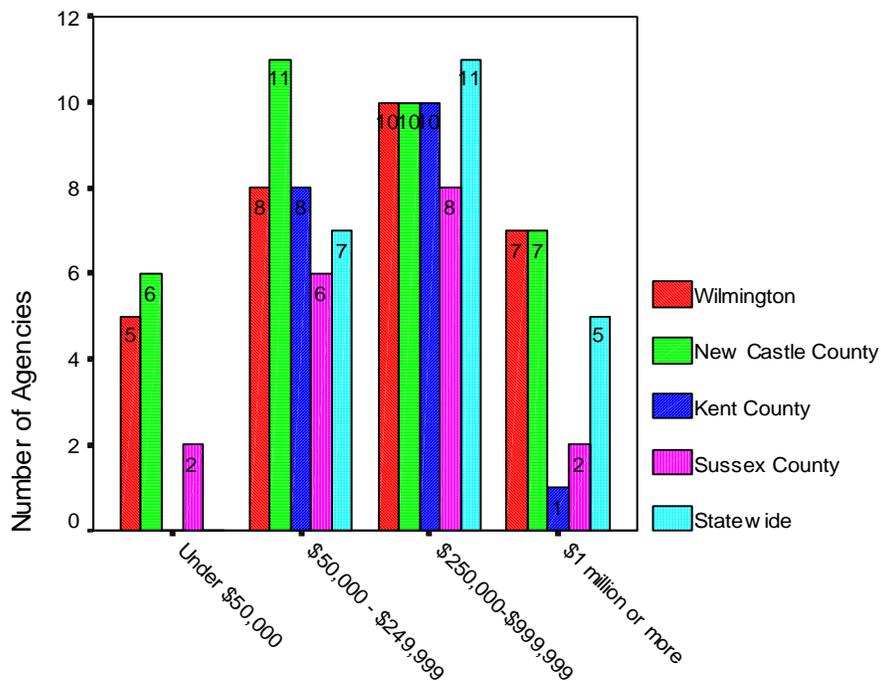
*Nearly half of surveyed agencies have annual budgets under \$250,000.*

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about client use of public assistance programs from focus group participants.

vary in respect to geographic service area—regardless of service location most programs responding to the survey are either small or medium-sized (see Figure 2).

**Figure 2**  
**Geographic Service Area, by Estimated Budget Size**



Of the 92 agencies responding to the survey, almost a third (27.2%) serve up to 50 clients in an average month, while about a fifth (23.9%) serve between 51 and 100 clients, and 11(12.0%) serve between 101 and 150 clients in an average month (shown in Table 3). Less than a quarter of respondent programs serve more than 200 clients per month. Since more than 50 percent of the programs serve fewer than 100 clients in an average month, these findings also indicate that most of the programs responding to the survey are either small or medium-sized.

**Table 3**  
**Number of Agencies by Number of Clients Served in an Average Month**

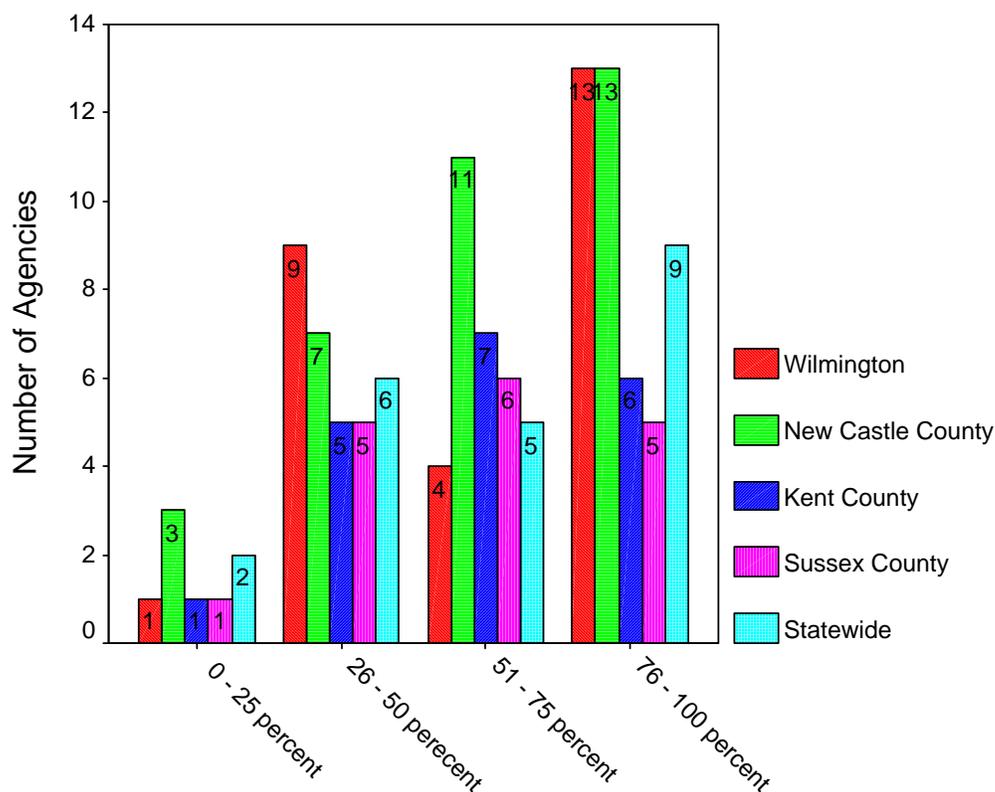
<i>Average Number of Clients per Month</i>	<i>Number and Percentage of Agencies</i>
Between 0 and 50 clients	25 (27.2%)
Between 51 and 100 clients	22 (23.9%)
Between 101 and 150 clients	11 (12.0%)
Between 151 and 200 clients	7 (7.6%)
Between 201 and 499 clients	5 (5.4%)
Between 500 and 999 clients	8 (8.7%)
1000 clients or more	8 (8.7%)

Due to rounding and multiple or missing responses survey calculations do not total to 100 percent.

About one-third of the agencies reported that the majority (76 - 100%) of their clientele is African-American. Approximately one quarter of the agencies indicated that between 25 and 50 percent of their clients are African-American and another quarter reported that between 50 and 75 percent of their clients are African-American. Fifty percent of the agencies located in Wilmington and/or New Castle County reported that at least 50 percent or more of their clients are African-American (see Figure 3). More than three-quarters (77.2%) of the agencies indicated that up to 25 percent of their clients are Hispanic/ Latino. Generally there do not appear to be any significant variations in terms of percent of clients who are Hispanic/ Latino by geographic service area.

***About one-third of the agencies reported that the majority (76-100%) of their clientele is African-American.***

**Figure 3**  
**Geographic Service Area, by Percentage of Clients who are African-American**



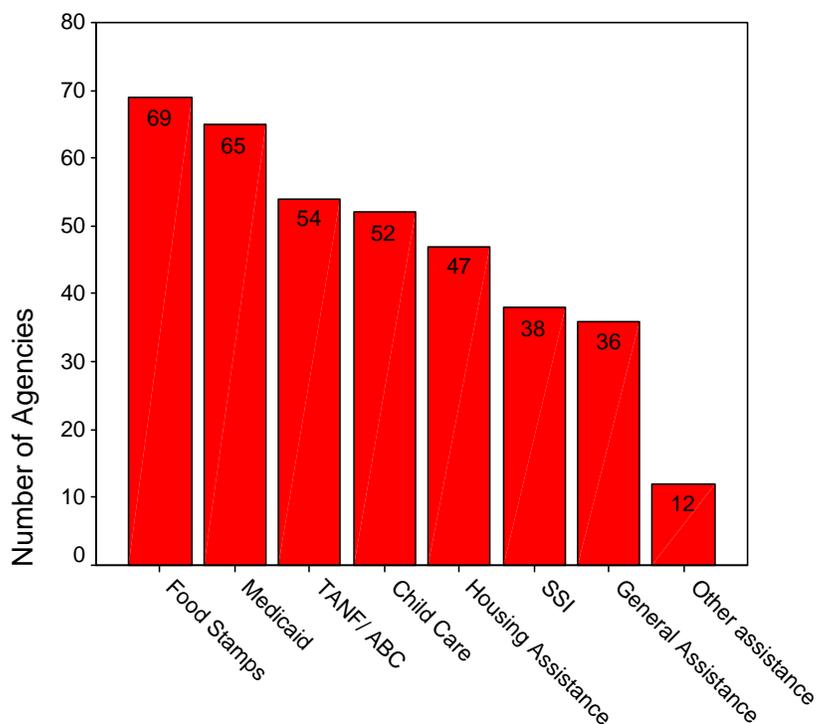
More than three-quarters (79%) of the programs reported that their clients use some kind of public assistance program. The public assistance programs most commonly

used by clients of respondent programs (listed in descending order by number of agencies reporting) are: Food Stamps, Medicaid, TANF/ABC, Child Care Assistance, Housing Assistance, SSI, General Assistance, and other types of public assistance (shown in Figure 4). Overall about a quarter of these

***More than three-quarters (79%) reported that their clients use some kind of public assistance program.***

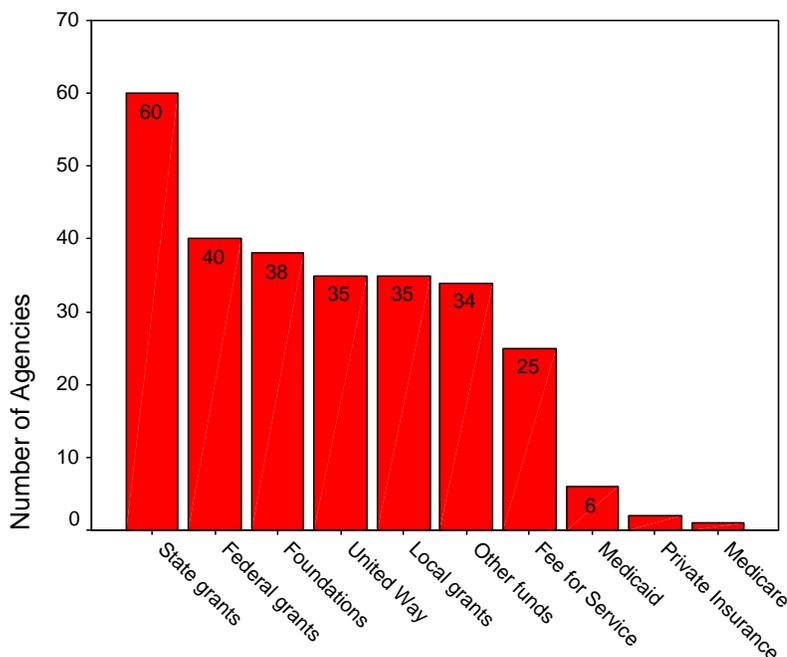
agencies are located in Wilmington, with another quarter in New Castle County. Given that Food Stamps and Medicaid are the two public assistance programs most commonly reported suggests that most of these programs serve clients who are low-income but who are not necessarily receiving welfare (TANF/ABC cash assistance benefits). In Delaware the TANF standard of need is 75 percent of the Federal Poverty Level, whereas the federal eligibility level for Food Stamps and Medicaid are 135 percent FPL and 100 to 185 percent FPL respectively. So, it is likely that many of these clients are earning low wages and still need transitional support services such as Food Stamps and Medicaid as well as assistance from nonprofit agencies in order to make ends meet.

**Figure 4**  
**Public Assistance Programs Most Commonly Used by Program Clients**



More than two-thirds of the 92 programs responding to the survey reported that state grants and contracts are a major source of program funds (shown in Figure 5) while less than half indicated that federal grants and contracts were a major source of program funds. The third category of program funds most commonly reported, with about two-fifths of the programs reporting, was foundation and corporate grants. This distribution contrasts with national figures. Nationwide, fees, service charges and other commercial income is the major source of support (more than 50%) for nonprofit organizations. Government grants, contracts, and reimbursements account for a third of nonprofit income, while private giving accounts for only a fifth of the income that nonprofits receive (Salamon 2002).

**Figure 5**  
**Major Sources of Funds for Program**



*Impact of Welfare Reform on Surveyed Agencies' Work with Clients*

Welfare rules regarding eligibility and applications were identified by almost 60 percent of respondent agencies as the rules which most frequently affect their clients (see Table 4). More than half of the programs indicated that welfare rules regarding subsidized child care (known in Delaware as Purchase of Care) and parenting classes

***Welfare rules regarding subsidized child care and parenting classes commonly affect clients.***

were among the welfare rules which most commonly affect clients. Not surprisingly, of programs providing child care services, over 90 percent indicated that Purchase of Care welfare rules most frequently affect their clients. In addition, three-quarters of the programs providing emergency/ transitional shelter reported that Purchase of Care welfare rules affect their clients.

**Table 4**

**Number of Agencies by Which Welfare Rules Most Frequently Affect Clients**

<i><b>Welfare Rule</b></i>	<i><b>Number and Percentage of Agencies</b></i>
Eligibility Rules/ Applications	53 (57.6%)
Purchase of Care (subsidized child care)	46 (50%)
Parenting Classes	45 (48.9%)
Access to Medicaid	42 (45.6%)
Access to Food Stamps	41 (44.6%)
Sanctions	38 (41.3%)
Work Requirements (other than Workfare)	31 (33.7%)
Case Closures	26 (28.3%)
Workfare Program (Employment Connections)	25 (27.2%)
Citizenship Requirements	20 (21.7%)
Child Support Rule	18 (19.6%)
Drug and Alcohol Screening	17 (18.5%)
Educational Restrictions	12 (13.0%)

Due to rounding and multiple responses survey calculations do not total to 100 percent.

The categories listed were identified by at least 10 percent of the agencies responding to the survey.

Overall, as shown in Table 5, agencies appear to be spending more time on certain welfare procedures since welfare reform. Programs reported that agency staff spends more time dealing with sanctions, workfare, and job searches. Since the 1996 welfare reform law focused on enforcing work and established penalties for noncompliance with welfare regulations, this suggests that one impact of welfare reform has been that nonprofits are spending an increased amount of time ensuring that clients comply with welfare regulations.

***Surveyed agency staff spend more time dealing with sanctions, workfare, and job searches.***

**Table 5**  
**Number of Agencies by Amount of Time Spent on DSS/ Welfare Procedures since Welfare Reform**

<i>Welfare Procedure</i>	<i>More</i>	<i>Less</i>	<i>About the Same</i>	<i>Not Applicable</i>
Time Spent Dealing With Sanctions	20 (21.7%)	1 (1.1%)	16 (17.4%)	32 (34.8%)
Time spent dealing with Workfare	18 (19.6%)	1 (1.1%)	16 (17.4%)	32 (34.8%)
Time spent dealing with job searches	16 (17.4%)	3 (3.3%)	14 (15.2%)	29 (31.5%)

Due to rounding and multiple responses survey calculations do not total to 100 percent.

Focus group participants also reported that sanctions are a significant issue for their clients and for their agencies. Clients are being sanctioned because they are not complying with welfare requirements but this is sometimes because they do not have access to child care and transportation. Also, participants representing agencies located in the southern parts of the state reported that because there is a lack of access to transportation in this area clients are often unable to get to jobs or other services. Transportation did not seem to be as much of an issue for participants in the focus group held in the northern part of the state or by most agencies responding to the survey. However, since most of the agencies responding to the survey are located in Wilmington and/or New Castle County this difference can likely be attributed to the fact that public transportation is much more accessible in Wilmington and New Castle County than in other areas of the State. Focus group agency staff spend more time helping clients find jobs and dealing with sanctions. These findings further indicate that agency staff is spending an increased amount of their time ensuring that clients work and comply with welfare regulations.

***Focus group agency staff spend more time helping clients find jobs and dealing with sanctions.***

***Requests for help with basic needs have also increased since welfare reform.***

Requests for help with basic needs also have increased since welfare reform (see Table 6). Almost half of the programs responding to the survey indicated that requests for emergency assistance have increased since welfare reform. Over a third reported that shelter requests have increased. A similar percentage

reported that since welfare reform requests for housing aid have increased. In addition, almost all (over 90 percent) of the programs providing food/meals reported that requests for food pantry assistance have increased since welfare reform. Other studies corroborate these findings. Significant patterns of food and housing insecurity among low-income families in Delaware were found by the National Welfare Monitoring and Advocacy Partnership (NWMAP) study of low-income families in Delaware. One-quarter (25.0%) of the respondents surveyed reported using a food bank or pantry and about a fifth (17.8%) reported that they could not afford food in the last six months. Ten percent of these families reported staying in a shelter in the last six months and about a fifth (20.9%) reported that they could not pay their rent in the last six months (Curtis, Scott, Breedlove & Copeland, 2002). A recent study of clients and agencies served by the Food Bank of Delaware found that emergency food providers in Delaware experienced changes in the need for services--56.7% of pantries, 33.2% of kitchens, and 30.2% of shelters indicated that the number of clients who come to their programs had increased since 1998 (Myoung, K., Ohls, J. & Cohen, R., 2001). Taken together these findings suggest that there may be more families in Delaware with unmet basic needs since welfare reform and that nonprofit agencies in Delaware have been impacted by this increased demand for help with basic needs.

**Table 6**  
**Requests for Help with Basic Needs**

<i>Help with Basic Needs</i>	<i>Increased</i>	<i>Decreased</i>	<i>About the Same</i>
Cash Benefits	25 (27.2%)	2 (2.2%)	24 (26.1%)
Emergency Assistance	43 (46.7%)	2 (2.2%)	19 (20.7%)
Food Pantries	34 (37.0%)	2 (2.2%)	20 (21.7%)
Shelter Requests	34 (37.0%)	3 (3.3%)	15 (16.3%)
Requests for Housing Aid	34 (37.0%)	1 (1.1%)	19 (20.7%)

Due to rounding and multiple responses survey calculations do not total to 100 percent.

Requests for help with health/mental health services have also increased since welfare reform. As shown in Table 7, more than two-fifths of agencies reported an increase in requests for emergency social services. About a third of agencies indicated that requests for Medicaid and/or health insurance increased and another third that requests for mental health services have increased. These findings suggest that programs

are seeing a greater number of uninsured families who have health emergencies. Some of these clients might also be families who have lost their health insurance coverage when Medicaid was de-linked from cash assistance under the 1996 welfare reform.

Approximately 88,000 Delawareans do not have health insurance (Ratledge, 2001).

**Table 7**  
**Requests for Help with Health/ Mental Health Services**

<i>Help with Health/ Mental Health Services</i>	<i>Increased</i>	<i>Decreased</i>	<i>About the Same</i>
Requests for Medicaid/ Health Insurance	27 (29.3%)	2 (2.2%)	21 (22.8%)
Requests for Mental Health Services	29 (31.5%)	2 (2.2%)	17 (18.5%)
Requests for Emergency Social Services	39 (42.4%)	1 (1.1%)	17 (18.5%)

Due to rounding and multiple responses survey calculations do not total to 100 percent.

Overall, about a quarter to a third of respondents reported increases in requests for help with education or employment (see Table 8). Of programs which provide housing, over 90 percent reported that requests for GED programs have increased since welfare reform. This finding suggests that families who need assistance with housing are pursuing additional education as a way of becoming self-sufficient. In addition, as shown in Table 9, requests for help with other needs such as child care and child welfare services are also reported to have increased. These increases may be partly due to the increased numbers of welfare mothers who are working since welfare reform.

**Table 8**  
**Requests for Help with Education or Employment**

<i>Help with Education or Employment</i>	<i>Increased</i>	<i>Decreased</i>	<i>About the Same</i>
English as a Second Language	20 (21.7%)	3 (3.3%)	18 (19.6%)
GED Programs	28 (30.4%)	2 (2.2%)	20 (21.7%)
Job Training Programs	27 (29.3%)	1 (1.1%)	21 (22.8%)
Employment Agency	22 (23.9%)	1 (1.1%)	18 (19.6%)

Due to rounding and multiple responses survey calculations do not total to 100 percent.

**Table 9**  
**Requests for Help with Other Needs**

<i>Help with Other Needs</i>	<i>Increased</i>	<i>Decreased</i>	<i>About the Same</i>
Child Care Services	37 (40.2%)	1 (1.1%)	19 (20.7%)
Child Welfare Services	22 (23.9%)	1 (1.1%)	15 (16.3%)

Due to rounding and multiple responses survey calculations do not total to 100 percent.

Focus group participants reported that access to child care is a major issue for their clients. The location of child care services and affordability are problems for clients. Some clients cannot afford to pay the Purchase of Care co-payment. Several participants in the Sussex County focus group reported that their

agency is experiencing a decline in enrollment in child care programs and that clients are dropping out of the programs because they are unable to pay the co-pay required for child care services. Fifty percent of the agencies responding to the survey indicated that welfare rules regarding subsidized child care were among the rules which most frequently affect their clients. So child care appears to be a significant issue which not only affects clients but also impacts nonprofit agencies in Delaware.

Overall focus groups participants reported that welfare reform had impacted their agencies as well as their work with their clients. Clients' needs for services seem to have increased given the increase in requests for food, crisis intervention services, utilities, housing, and shelter. The focus groups reported that there are increases in the numbers of clients who need assistance and that the clients served by their agencies seem to be harder-to-serve than in previous years. Several of the participants commented on the increase in demand and the increasingly harder-to-serve population of clients:

*“There’s a tremendous need on the part of people to access food so that they can use their dollars for other things. People will line up early in the morning for afternoon food distributions. The distribution numbers keep increasing—we’re seeing an increase in food requests.”* (New Castle County focus group, 6/24/2002)

***“The cream of the crop has been able to get off welfare and get their education but now it’s filtered down to the hardest-to-serve and we’re hitting the bottom. We’re now working with this population more and more—people with mental health issues, substance abuse issues.”***

*“The cream of the crop has been able to get off welfare and get their education but now it’s filtered down to the hardest-to-serve and we’re hitting the bottom. We’re now working with this population more and more—people with mental health issues, substance abuse issues.”* (Kent County focus group, 6/27/2002)

*“There are more people coming in. We see a lot more people coming in with housing and homelessness problems, utility problems. Crisis is the biggest need. There are more people coming in for this. Clients from [a nearby shelter] come in all the time--refer them to other services--especially for help with homelessness, food, energy assistance. When they come in for food we find out that they have other needs.”* (Sussex County focus group, 6/26/2002)

These findings are similar to those reported by the surveyed agencies. Almost half of these agencies reported that requests for emergency assistance have increased since welfare reform. Also, almost all (over 90 percent) of the programs providing food/meals reported that requests for food pantries have increased since welfare reform. Thus, the findings from both the survey and the focus groups suggest that there may be more families in Delaware with unmet basic needs since welfare reform and that nonprofit agencies in Delaware have been impacted by this increased demand for help with basic needs.

***Since welfare reform nonprofit agencies are now the primary source of assistance for many low-income families in Delaware--welfare reform may have increased the demand for their services.***

Overall these findings suggest that increasingly since welfare reform nonprofit agencies are now the primary source of assistance for many low-income families in Delaware and that welfare reform may have increased the demand for their services. Similarly, the results from the 2002 National Welfare Monitoring and Advocacy Partnership (NWMAP) study of the impact of welfare policy changes on welfare leavers and other low-income families in Delaware found that almost 75 percent of the families surveyed received help from some nongovernmental source (Curtis et al., 2002).

Nationwide, nonprofit agencies are experiencing increases in demand for services. These increases are due in part to the number of families leaving welfare for work who earn too little to support themselves and their families. Some families that remain on the welfare rolls and those who have been dropped from the rolls without work remain in unstable situations with many unmet needs (Children’s Defense Fund, 1998). These

impacts have led some agencies to increase their involvement in advocacy to promote welfare policy changes (Abramovitz, 2002; Somerfeld & Reisch, 2003). About half (48.9%) of the staff in the Delaware agencies have disseminated information about welfare reform, while two-fifths (42.4%) have encouraged attendance at community meetings, and about a third (31.5%) have encouraged education of legislators or policy makers about welfare reform. About a quarter (26.1%) of the Delaware survey respondents reported intensifying their advocacy efforts since welfare reform was enacted.

***About a quarter (26.1%) of the Delaware survey respondents reported intensifying their advocacy efforts since welfare reform was enacted.***

### *Impact of Welfare Reform on Surveyed Agencies' Workers*

Two-fifths of programs reported that productivity increased in response to welfare reform. More than 50 percent indicated that their program had gained clients since welfare reform. Table 10 illustrates that certain aspects of program operations have also increased since welfare reform. Nearly 50 percent have seen an increase in documentation and paperwork requirements, while over half indicated that referrals to other agencies and collaboration with other agencies have increased.

**Table 10**  
**Agency Operations**

<i>Aspects of Operations</i>	<i>Increased</i>	<i>Decreased</i>	<i>Not Changed</i>
Documentation/ Paperwork	44 (47.8 %)	2 (2.2%)	32 (34.8%)
Need for new services	37 (40.2%)	-	32 (34.8%)
Use of outreach services	39 (42.4%)	3 (3.3%)	30 (32.6%)
Collaboration with other agencies	46 (50.0%)	1 (1.1%)	27 (29.3%)
Referrals to other agencies	48 (52.2%)	2 (2.2%)	28 (30.3%)

Due to rounding and multiple responses survey calculations do not total to 100 percent.

Both our survey and focus groups confirm that documentation and paperwork have increased since welfare reform. For those with government contracts and some private funders, each program has its own reporting requirements and different sets of paperwork to be

***Documentation and paperwork have increased significantly since welfare reform.***

completed for each performance goal. Because workers are now spending so much time on paperwork it appears that this has impacted how much time they can devote to other aspects of program operations. One focus group participant stated: *“We have to fill out multiple forms which require the same information--this takes up a lot of time. This time could be spent on something else by the workers to do other things.”* (Sussex County focus group, 6/26/2002). In addition, focus group participants reported that referrals and collaboration with other agencies have increased since welfare reform.

Another major topic of discussion at the focus groups was how welfare reform has impacted staff at nonprofit agencies. Because welfare reform has affected program operations, employees at nonprofit agencies have been impacted by welfare reform as well. In general, program staff at some agencies is experiencing much more frustration as well as burnout and stress. This increased frustration, burnout and stress appears to be due to a number of factors: lack of resources to help clients as well as increased responsibilities for workers due to welfare rules and regulations since welfare reform. Dealing with clients’ DSS case managers and trying to find the resources to help their clients are just two of the major challenges for workers. They also believe that many clients have more substantive needs that agencies cannot address. One of the major issues for agencies is that clients have barriers to obtaining housing which are not addressed by the current welfare system and which nonprofit agency workers cannot resolve. Thus, one of the most significant challenges for agencies is not only how to deal with welfare rules and regulations but how workers can help clients who have unmet needs which impact their ability to comply with welfare reform. Challenges such as these appear to have resulted in increased frustration at nonprofit agencies. Several participants’ comments reflect how welfare reform has impacted staff at their agencies and how they are managing since welfare reform:

***Agency staff are experiencing increased frustration, burnout, and stress since welfare reform.***

*“There is a problem with frustration. Sometimes staffers have to do extra work to get things done--causes a lot of frustration for the workers...I just feel that sometimes there's just not enough hours in the day.”* (Sussex County focus group, 6/26/2002)

*“The lack of resources frustrates staff because you just can't meet all needs. You just can't. You want to help everyone but you can't. Sometimes you don't know where you're going to get the resources--you hear the clients' stories and it's sort of depressing so this affects you.”* (Sussex County focus group, 6/26/2002)

*“We have popcorn and Pepsi for the bad days—we cry sometimes. We vent with people who do the same kind of work.”* (Kent County focus group, 6/27/2002)

This finding was markedly different from the findings for impacts on workers reported by agencies responding to the survey. While significant percentages of agencies surveyed indicated that their employees were spending more time dealing with certain DSS procedures since welfare reform and that aspects of agency operations such as documentation/ paperwork had increased, most of the agencies responding to the survey did not report significant impacts on their workers. However, differences in the methodological approaches might have factored into the differences between the findings from the survey and the focus groups. Overall, focus group participants seemed to report greater impacts on their agencies than did agencies responding to the survey.

## CONTRACTOR INTERVIEW AND LOCAL COORDINATING TEAM (LCT) MEETING RESULTS

### Characteristics of ABC Contracts

Delaware has considerable experience in contracting ABC employment-related case management and processing services, including assessments, employment plans, referrals, and monitoring. In the demonstration period, 1995 through 1997, several pilot programs were contracted (Young Parent Families Initiative, Retention Services, Academic Skills Development/Enhancement, and Compliance).

***In the demonstration period, 1995 through 1997, several pilot programs were contracted.***

***There have been three RFP contract cycles: 1997-1999, 1999-2001, and 2001-2002.***

Since ABC became a statewide program in 1997, there have been three RFP contract cycles, 1997-1999, 1999-2001, and 2001-2002 (to coincide with the expiration of the ABC waiver and TANF authorization). Although the RFP cycle is typically two years, contracts cover one year, with an option to renew for a second year. Due to uncertainties about TANF reauthorization, the most recent contracts have been extended through September 2003. In June 2003, DSS/DOL issued an RFP for the next contract period, from October 2003 to September 2004.

Several DSS administered programs, including services for recipients with multiple employment barriers (Hard to Place, Remediation to Enhance Employability, Academic Skills Development/Enhancement), assistance in curing sanctions (Compliance Services), and targeted services for young families (Single Young Parent Families Initiative) were implemented only in the first statewide contract cycle (1997-1999), while an employment program for non-custodial parents in arrears on child support payments (Parents Seek Work), was implemented only in the second contract cycle (1999-2001). Job search assistance, known as Get a Job (GAJ), was contracted and overseen by DOL/E&T from September 1997 through June 2000, at which time all GAJ participants were transferred to the DOL administered Employment Connections (placement) program. Its predecessor, Work for Your Welfare, was administered by DSS. The state's job retention assistance program, Keep a Job (KAJ) began in 1997 and is administered by DOL/E&T.

The Teen Stay in School-Return to School program was administered by DSS from September 1997 through June 2002, when it was discontinued due to budgetary cutbacks. DEDO administers a TANF Employer's Committee, consisting of representatives of both the public and private sector, which assists in placing welfare recipients in unsubsidized jobs and provides advice on direction, policy and welfare-to-work efforts. DeIDOT administers several transportation assistance programs for welfare recipients. Representatives from the Welfare Reform Team meet with organizations providing contracted services on a monthly basis in each county. These meetings are facilitated and documented by a consultant group and are known as Local Coordinating Team (LCT) meetings.

With the exception of the Bridge Intervention Services (substance abuse treatment), all ABC contracts are pure pay-for-performance. Employment Connections contracts offer services for recipients to find and maintain unsubsidized employment or place participants in a TANF supported activity or job. Participants must be employed a minimum of 20 hours per week. Once participants obtain unsubsidized employment, the contractors work with them to keep them on the job for 90 days. Payment points include engagement, 30 day retention and 90 day retention. Bonus payments (up to seven percent of the contract) may be earned for exceeding the 90 day retention target and reducing part-time employment below the target. Keep a Job (KAJ) job retention services pick up where Employment Connections leaves off. KAJ contracts require providers to keep participants on their jobs for 90 days through 120 days, and 120 days through 360 days, with payment points at three month intervals. Bonus payments (up to seven percent of the contract) may be earned for exceeding the 180 day retention target and reducing part-time employment below the target. The discontinued Teen Stay in School/ Return to School program targeted youth in TANF families who were at risk of dropping out as well as those who had left school. Services included career direction, tutorial support, attendance monitoring, and for youth above 16, alternative education and skills training programs. School attendance, summer work experience, graduation from high school with a C average or better and job placement for high school graduates were the

***All work-related ABC contracts (Employment Connections and Keep a Job) are pure pay-for performance contracts.***

performance measures for this program. Payment points were for each semester of attendance, summer work, high school graduation with a C average, and job placement for high school graduates.

Exhibiting a trend in common with some other states, four of the initial ABC contracts (two in the demonstration period and two in the first statewide contract cycle) were awarded to out-of-state for-profit firms, Association for Research and Behavior, Inc. (ARBOR), MAXIMUS, Inc., and Curtis and Associates, while several nonprofits that had been providing comparable services under the First Step (JOBS) employment program were unsuccessful bidders (Goodwill Industries, 1997).<sup>9</sup> These for-profit corporations have welfare reform and other social services contracts in a number of other states (Winston et al., 2002). In 1998, DSS representatives spoke at the annual Delaware Association of Nonprofit Agencies (DANA) conference about their assumption that for-profit organizations would be more financially accountable in their contract performance. Minutes of local advocacy group meetings as well as articles in nonprofit newsletters show that there was some consternation among nonprofit service providers and advocates about the state's orientation to contracting and the early procurement pattern (Curtis, 2001).

***Four of the initial ABC contracts were awarded to ARBOR, Maximus, Inc., and Curtis and Associates.***

***Three campuses of the state's community college system have been successful welfare reform contract bidders.***

Three campuses of the state's community college system (Delaware Technical and Community College) have been successful welfare reform contract bidders. Nonprofits that have been awarded ABC contracts include three local affiliates of national organizations (Salvation Army, Delaware Region, Goodwill of Delaware and Delaware County, and Delaware Elwyn), a multi-purpose faith-based agency (Ministry of Caring), a community center in Wilmington (West End Neighborhood House), and two organizations with expertise in addressing the supportive service and employment needs of special populations (including one that works with persons with disabilities, Opportunity Center, Inc., and one that focuses on persons who speak limited English, the

<sup>9</sup> ARBOR, Inc. is a Philadelphia based firm with contracts serving disadvantaged clients in 30 locations, including a large contract in New York City. MAXIMUS and Curtis and Associates are described in following pages.

Latin American Community Center). ABC contracts have also been awarded to a statewide agency providing parent, teen, children's and family support services (Children and Families First) and two organizations providing substance abuse treatment services (a regional community and migrant services organization, Delmarva Rural Ministries, and a Wilmington-based substance abuse treatment program, Brandywine Counseling). Although MAXIMUS continues as an ABC contractor, the other two for-profit contractors, ARBOR, Inc. and Curtis and Associates left the state after their contracts expired, in 1997 and 1999 respectively. Table 11 lists ABC contracts by contract cycle and contractor organization since 1997.<sup>10</sup>

***Nonprofit  
Contractors include:  
Salvation Army,  
Goodwill,  
Delaware Elwyn,  
Ministry of Caring,  
West End  
Neighborhood House,  
Opportunity Center,  
Inc., Latin American  
Community Center,  
Children and  
Families First.***

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<sup>10</sup> We were unable to conduct interviews with three former contractors: Curtis and Associates (because they left the state in 1999), Opportunity Center, Inc. and Delaware Elwyn (because no staff that worked on the ABC contracts was still employed by these agencies).

**Table 11**  
**ABC Contracts by Contract Cycle and Organization, 1997-2003**

<i>Contract</i>	<i>Contractor</i>	<i>Dates</i>	<i>County/Area of Service</i>
<b>Remediation</b>	Del Tech (DTCC)	97-99	Kent & Sussex
	Salvation Army (SA)	97-99	Wilmington & New Castle
	Opportunity Center (OCI)	97-99	Wilmington
	Ministry of Caring (MOC)	97-99	Wilmington
<b>Compliance</b>	DTCC	97-99	New Castle & Kent
	Children & Families First (CFF)	97-99	Sussex
	West End Neighborhood House (WENH)	97-99	Wilmington & New Castle
<b>Young Parent Families</b>	SA	97-99	Wilmington, New Castle, Kent, Sussex
	WENH	97-99	Wilmington
<b>Hard to Place</b>	CFF	97-99	Sussex
	DE Elwyn	97-99	Wilmington
	Goodwill	97-99	Wilmington, New Castle, Kent
	MOC	97-99	Wilmington
	SA	97-99	New Castle, Kent
	DTCC	97-99	Kent, Sussex
<b>Academic Skills</b>	MOC	97-99	Wilmington, New Castle
	OCI	97-99	Wilmington, New Castle
	DTCC	99-01	Statewide
<b>Parents Seek Work</b>	DTCC	99-01	Statewide
<b>Teen Stay in School</b>	DTCC	97-99, 99-01, 01-02	½ School districts
	SA	97-99, 99-01, 01-02	½ School districts
<b>Get a Job</b>	Curtis & Associates	97-99	New Castle, Kent
	DTCC	97-99, 99-00	Sussex
	CFF	99-00	Kent
	WENH	97-99	Wilmington
	LACC	97-99, 99-00	Wilmington
	DE Elwyn	99-00	½ New Castle
	SA	99-00	½ New Castle
<b>Keep a Job</b>	CFF	97-99, 99-01, 01-02, 02-03	Kent & Sussex
	DE Elwyn	97-99, 99-01	Wilmington, New Castle
	MOC	97-99, 01-02, 02-03	Wilmington, New Castle
	DTCC	97-99	New Castle
	SA	97-99, 99-01, 01-02, 02-03	New Castle
	LACC	97-99	Wilmington
<b>Workfare</b>	MAXIMUS	97-99	Statewide
<b>Employment Connections</b>	MAXIMUS	99-01, 01-02, 02-03	New Castle
	DTCC	99-01,	New Castle, Kent, Sussex
	DTCC	01-02, 02-03	Kent, Sussex
<b>Bridge Intervention</b>	Brandywine Counseling	97-99, 99-01, 01-03	New Castle
	Delmarva Rural Ministries	97-99, 99-01, 01-03	Kent & Sussex

*Characteristics of ABC Contractor Organizations*

The two main for-profit contractors operating in Delaware, MAXIMUS, Inc. and Curtis and Associates (since acquired by Concera Corporation, which was in turn purchased by ACS - Affiliated Computer Services, Inc.) are large organizations with ongoing projects in numerous states and localities. MAXIMUS has received three ABC contracts, one for statewide services. Curtis and Associates was a successful bidder only in the first ABC contract cycle. MAXIMUS specializes as a contractor to government agencies, as evident in the company's tag line, "Helping government help the people." MAXIMUS has roughly 4,800 employees in more than 170 offices across the country and earned nearly \$500 million in revenue in 2002. In contrast to MAXIMUS much of ACS's work is with private sector firms as an outside provider of business and information technology services. ACS is also larger than MAXIMUS with over \$3 billion in revenues in fiscal year 2002 and more than 36,000 employees (McConnell et al., 2003). According to press reports, about one-third of ACS's revenue comes from contracts with state and local government agencies (Welsh, 2002). In recent years, ACS has purchased several other companies – including Lockheed Martin Information Management Systems and Concera Corporation, a for-profit provider of business process outsourcing and workforce development services.

**CURRENT ABC CONTRACTORS**

**AT A GLANCE:**

- ✓ *Primarily multiservice organizations*
- ✓ *Average nonprofit contractor budget is \$6.7 million*
- ✓ *Public agency and for-profits are much larger.*

Because of the scope and resources of MAXIMUS and ACS, the companies' employees can draw on extensive expertise in securing new contracts and delivering services. In developing proposals, for example, employees familiar with local circumstances and TANF program details take primary responsibility but have the assistance of corporate staff members who specialize in drafting project budgets and preparing effective proposals. Local project staff also benefit from program materials, such as proprietary curricula for job readiness and life skills courses, prepared for use in all project sites (McConnell et al., 2003).

Extending their mission of providing lifelong learning opportunities to diverse populations, nearly half (48%) of the community colleges in the U.S. offer welfare to

work programs (American Association of Community Colleges, 2003). Three campuses of Delaware Technical and Community College (DTCC) have received ABC contracts and two of the campuses are current contractors. This public agency sees welfare reform contracts as consistent with its mission of lifelong learning and current workforce development programming. DTCC occupies a middle ground between large for-profit and smaller nonprofit organizations, with an overall statewide appropriation of \$54.6 million. Although they operate under the auspices of the Division of Corporate and Community Programs, whose budget is entirely externally funded, the ABC contracted programs (conducted through Workforce Training Departments on each campus) have been able to draw on the resources of the larger institution to meet cash flow and infrastructure needs. DTCC has received nine ABC contracts.

Several nonprofit contractor organizations in Delaware (Goodwill, Salvation Army, and Delaware Elwyn) operate as affiliates of national nonprofit networks. Within each network, a national office may develop broad general policies, provide technical assistance to members, and engage in policy advocacy. However, the local affiliates provide direct services independently and primarily receive funding from the communities in which they are based rather than the national organizations. Sanger (2001) argues that they more closely resemble for-profit organizations than small community based organizations in terms of their financial stability. However, they also typically receive much less assistance in proposal preparation and program development from their headquarters than the national for-profits do (McConnell et al., 2003).

Their size, in terms of budget and number of employees, varies. With a total operating budget of \$11.9 million, the Salvation Army, Delaware Region maintains separate arms for its ministry and social service activities and sees welfare reform contracts as consistent with its mission to serve the poor and disadvantaged. The revenues of its community services division, which operates child care, employment, emergency assistance, and other programs, are \$3.4 million per year. The Salvation Army has been awarded seven ABC contracts since 1997, and like DTCC, is able to draw on the resources of the total agency to meet cash flow and infrastructure needs. Two organizations that were awarded contracts in the first (Goodwill) and first and second (Delaware Elwyn) contract cycles have operating budgets of \$12.6 million and \$5

million, respectively. Goodwill of Delaware and Delaware County was awarded one ABC contract, and Delaware Elwyn was awarded four ABC contracts. Goodwill operates job training and employment services, including short-term and long-term training and job readiness programs in Delaware and Delaware County, Pennsylvania. Delaware Elwyn is part of a \$148.8 million, multi-state network (California, Delaware, Pennsylvania and New Jersey) with expertise in addressing employment and supportive service needs for persons with disabilities.

Other nonprofit contractors are local organizations which developed to meet the needs of low-and moderate-income people. Local nonprofits bring important qualifications as ABC contractors, including familiarity with a local area and the needs of specific groups of clients. ABC contracts may also bring new and substantially different roles for them. Staff members may be forced to implement policies that seem severe - such as recommending sanctions for clients who fail to meet work requirements - and that are in tension with the organizations' traditional roles as providers of assistance to the needy. In reconciling the responsibilities of ABC contracts with their philanthropic missions, these organizations face dilemmas similar to their counterparts affiliated with national groups.

Many of these nonprofits have experience as government contractors, but they tend to operate with fewer funds and administrative resources than nonprofits working within a national network. These organizations operate an array of social and economic programs, often focusing their activities on a particular neighborhood (West End Neighborhood House), ethnic group (Latin American Community Center), or population in need of assistance (Ministry of Caring, Children and Families First, Opportunity Center, Inc).

In contrast to the experience in other parts of the country (Winston et al., 2002), nonprofits in Delaware have not formed collaboratives with other nonprofits or with for-profit organizations to bid for ABC contracts. National for-profits often view collaboration as a way to access the expertise of community organizations, especially their familiarity with local populations or programs (McConnell et al., 2003). Several nonprofit ABC contractors in Delaware reported being approached by MAXIMUS about possible collaboration and sub-contractual relationships.

West End Neighborhood House (WENH), with a \$1.8 million annual budget, operates childcare, youth, adult education, housing, crisis alleviation and counseling programs on the west side of Wilmington. WENH received three ABC contracts in the first contract cycle. With a \$1.9 million annual budget, the Latin American Community Center (LACC) advocates for and assists members of the Latino community with housing, education, childcare and crisis alleviation services. LACC received three ABC contracts. Ministry of Caring (MOC) is a faith-based organization in Wilmington with a \$9.8 million annual budget. MOC focuses its services on homeless and low-income families. Its staff and volunteers operate shelters and provide food assistance, health care, childcare and employment programs in New Castle County. MOC has received five ABC contracts. With an annual budget of \$6.9 million, Children and Families First (CFF) operates statewide employment, foster care, family development, and HIV/AIDS services to a broad range of people. CFF has received six ABC contracts. Opportunity Center, Inc., which operates under a \$5.2 million annual budget and provides education and employment services for people with disabilities in New Castle County, was awarded two ABC contracts.

The Bridge Intervention Services contracts to provide substance abuse treatment are not performance-based, but reimburse contractors according to agreed upon service units. Brandywine Counseling, a \$6.4 million substance abuse treatment organization based in Wilmington, provides Bridge program services to New Castle County ABC recipients. With an annual budget of \$2.3 million, Delmarva Rural Ministries, a faith-based, regional migrant and community services organization based in Dover, provides Bridge program services to Kent and Sussex county ABC recipients.

*Impact of Welfare Reform on Contractor Agencies' Work with Clients*

In general, contractor agency staff indicated that clients are affected by a range of welfare rules and regulations concerning eligibility for services, access to services, and logistical obstacles such as transportation and child care. At some of the contractor agencies, welfare rules related to personal and family challenges such as domestic violence and substance abuse affected clients. At others, helping clients maintain school enrollment and academic progress for their

***Clients are affected by a range of welfare rules and regulations relating to eligibility, access, and logistical obstacles.***

minor children was a major emphasis. ABC rules which require immediate work attachment were mentioned by several contractors as interfering with long term mobility and self sufficiency since clients have relatively low educational achievement and jobs skills. Several interviewees mentioned that few clients received court ordered child support from non-custodial parents.

In contrast to the surveyed agencies, many of the contractor agencies reported that since their clients are already receiving ABC grants, while there are problems from time to time, there are not currently major issues with welfare receipt. Two major exceptions are difficulties in obtaining child care and transportation when clients work in the evening or on weekends. There was also some variation across the counties, with transportation mentioned more frequently by Kent

***There are difficulties in obtaining child care and transportation when clients work in the evening or weekends.***

***There are questions about conditions under which referrals are made to the Bridge Intervention Services, substance abuse treatment contractors.***

and Sussex county contractors. This is similar to the pattern seen in the surveys and focus groups. Another unresolved issue appears to be standardizing the conditions under which referrals are made to the Bridge Intervention Services, substance abuse treatment contractors.

Some contractors reported that in the first contract cycle, high sanction rates interfered with their ability to work effectively with clients. A number of the

interviewees see intervention with DSS as part of their contractual case management responsibilities. Some of the interviewees indicated that they spend more time or have always (at least since 1995) spent a lot of time dealing with applications for assistance, sanctions, case closings, fair hearings, job searches, and helping clients understand welfare rules. One interviewee stated that while they were spending less time on welfare procedures now, *“The process had been more like a trajectory and our involvement in these issues had leveled off since we initially received a contract.”* A few of the organizations are not involved or try not to get involved in the process of helping clients apply for assistance such as food stamps, or Medicaid. Similar to the surveyed agencies and focus group participants, the nonprofit contractors also reported

***Nonprofit contractors also reported increases in request for help with basic needs.***

increases in request for help with basic needs.

*Impact of Welfare Reform on Contractor Agencies' Workers*

Along with the surveyed agencies and focus group participants, most of the contractor agency staff reported that certain aspects of agency operations have increased since receiving an ABC contract. In particular, almost all of the interviewees said that ABC contracts entail significant administrative work due to documentation and reporting requirements. In addition, the documentation and reporting requirements changed frequently, particularly in the earlier contract cycles. Access to the DSS and DOL electronic reporting systems has been challenging. All of the contractors reported increases in collaboration with and referrals to other agencies, in use of existing services, and in contacts with the welfare office (DSS).

Several interviewees reported increases in organizational tensions, related to increased workload and conflicts between agency

***At most agencies increased documentation and reporting requirements since receiving an ABC contract entail significant administrative work.***

missions and ABC contract performance goals. Several agencies that lost or changed contracts also saw increases in problems with staff morale and staff turnover.

In contrast to the focus group participants, overall, the contractor agencies told us that for the most part the staff at their agencies seem generally satisfied with their work, believe they are helping clients, and have positive feelings about their role. This is similar to the

***Agencies that lost or changed contracts saw increases in staff turnover and lower staff morale.***

findings for surveyed agencies. However, like focus group participants, interviewees also indicated that stress and burnout are concerns, which have increased in several of the agencies. These agencies are taking measures, such as activities designed to increase morale or more frequent staff meetings to discuss any

staff concerns, to ensure that staff are not overwhelmed by their responsibilities. While productivity decreased in early contract cycles due to the administrative difficulties associated with contract start-ups as well as DSS/DOL policy and systems changes, it has increased over the later contract cycles.

*Dynamics of the ABC Contracting Relationship*

Similar to other studies (Brodkin et al., 2002, De Vita 1999; Martinson & Holcomb, 2002; McConnell et al., 2003; Pavetti et al., 2000; Sanger, 2001; Winston et

al., 2002 ) our interviews and analysis of monthly state/contractor meetings reveal several factors that shape the dynamics of the state/nonprofit relationship in welfare reform contracting: 1) financial capability and performance accountability of nonprofit organizations, 2) competition with for-profit service providers and between larger and smaller nonprofits, and 3) the role of nonprofit organizations as advocates in the policy making process.

A brief review of some of the major changes in DSS policies and procedures follows. Beginning January 1, 1999, DSS put in place a number of systems, operational, and policy changes. The co-occurrence of these changes, which included a new client intake and tracking system (Delaware Client Information System II or DCIS II), mail issuance of Food Stamps, the end of cash assistance to teenage mothers and their children, and adoption of a generalist worker model (known as the Primary Case Manager), had significant negative consequences for clients and contractors as well as DSS workers. As a result of initiating DCIS II, many ABC cases were closed so they could be transferred between state service centers. Food Stamps cases were also closed in the transfer to the mail issuance contractor. Recipients were not notified in advance of the need to close their cases and found out only when they did not receive expected benefits. ABC contractors were not notified about these case closures which resulted in a sharp decline in referrals as well as disruption in work with already referred clients.

***DSS and DOL made numerous policy and operational changes to ABC contracts.***

In July 1999, DSS held several focus group meetings - with ABC contractors, other service providers, advocates, legislators, and state officials - to review their plans to align administrative functions to mirror the Primary Case Manager service realignment. Participants in the contractor focus group were concerned about lack of timely payment, the need for regular communication, lack of advance notice about policy and operational changes, and the need for contract adjustments, given the low level of referrals by DSS workers (DHSS, July 1999). Most of our interviewees spoke about this time period and recalled it as the most difficult of their interactions with the state.

Additional issues raised at the July 1999 focus group meeting included: the need for consistent, clear, and accurate communication from DSS to contractors and clients

about ABC requirements, staff turnover at DSS (resulting in workers unfamiliar with ABC requirements), delays in resolving issues that contract managers do not have authority over, willingness of employers to participate in ABC, lack of interaction across ABC, Medicaid, child care and health care contractor groups, ability of contractors to have access to the same information about clients as Primary Case Managers, and the nature of and differences in interaction of DSS with nonprofit and for-profit contractors (DHSS, July 1999).

During the first six months of 2000, a number of problems arose in all three counties associated with another policy change, the reduction of the clients' time limit from 48 to 36 months for new applicants and different programmatic requirements for on-going cases, re-applicants, and new applicants. There were ongoing problems with the automated data entry systems shared between the state and the contractors. For example, many New Castle county clients were not being credited with months in which they had worked at least 20 hours per week.<sup>11</sup>

At the beginning of 2000, contractors in all three counties requested clarification on the transition from Get a Job (employability training) to Employment Connections (job placement or workfare) for clients who had not found a job and had reached their 24 month limit on employability training (ABC LCT Kent County, February 2000, March 2000; ABC LCT New Castle County, March 2000; ABC LCT Sussex County, January 2000). The New Castle County group requested that DSS policy and regulatory changes be disseminated to all contractors and discussed at the statewide quarterly forums (ABC LCT New Castle County, February 2000).

Communication between DSS/DOL and contractors is an ongoing concern. In 1998, concerns about timely payment, regular and standardized communication between the state and ABC contractors and among ABC contractors, barriers facing ABC participants, and lateness of the ABC Request For Proposals were expressed in several of the New Castle County contractor meetings (ABC LCT New Castle County, September, November, December 1998).

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<sup>11</sup> In October 1999, DSS established a "Stop the Clock" policy where any month in which a client worked at least 20 hours per week would not count towards the lifetime TANF and ABC limit on cash assistance. The policy is retroactive to October 1995.

In 2000, one Kent County contractor found it necessary to establish regular meetings with DSS staff in order to resolve systems and sanctioning issues (ABC LCT Kent County, April 2000). By 2001, communication between DSS workers and contractors in Kent and New Castle counties was still an issue, although some of the specific complaints and problems had changed. Client movement from one program to another (and thus one contractor to another) was not yet a “seamless” process, despite state assertions and contractor efforts (ABC LCT New Castle County, March 2001; ABC LCT Kent County, May 2001). Kent County contractors expressed confusion on procedures to implement the education and training provisions enacted in 1999 and continued to have problems with DCIS I and DCIS II (ABC LCT Kent County, May 2001).<sup>12</sup> New problems with the volume of referrals surfaced this year as well as a number of issues concerning workfare policies and procedures (ABC LCT New Castle County, July 2001). Overall, Sussex County contractors raised more issues about program implementation than contractors in the other two counties. Sussex County contractors were, however, successful in negotiation with DSS representatives about prior contractor notification before a DSS worker gives a sanction or raises it to the next level (ABC LCT Sussex County, August 2001).

*Financial Capability and Performance Accountability of Nonprofit Organizations*

There are some significant differences in the mission, size and financial capability of the contractor organizations, both across sectors (for-profit, public and nonprofit) and within the nonprofit sector. All of these organizations see welfare reform contracts as extensions of their current programs and consistent with their mission or purpose. Private nonprofit organizations are often believed to be motivated by a strong sense of mission, which may lead them to offer higher quality services, especially for vulnerable people (Sanger, 2001). Contractor agency staff generally indicated that helping the organization realize its mission was a primary factor in why they bid on ABC contracts. Several interviewees also said that increasing funding and services were also important. Those

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<sup>12</sup> The Education and Training Act for Welfare Recipients (SB 101) allows clients in good standing in full-time secondary, post-secondary, vocational and adult basic education to substitute their credit hours for the weekly work requirement. For example, a student at DTCC taking 15 credit hours will have to complete only 5 additional hours work to meet the work requirement.

that serve particular local populations also noted that their decision to bid was in part influenced by the desire to address unmet needs in the communities they serve or because other agencies were unable to meet the needs of particular clients.

For-profits, affiliates of national nonprofits, and local agencies vary in the resources they have available. Larger organizations, particularly for-profits, tend to have more financial resources that enable them to take on projects of substantial size. Until the recent rash of corporate scandals, for-profits were also generally seen to be well-managed, the assumption being that if they were not, they would be driven out of business. Small organizations, in

***Larger organizations, particularly for-profits, tend to have more financial resources that enable them to take on projects of substantial size.***

particular, may not have the financial resources to bid on or implement contracts that require them to cover significant expenses upfront or to weather a period in which expenses exceed income. Smaller local groups also confront the challenge of managing and reporting on a complex program with sometimes limited internal resources.

Most of the contractor agencies participating in interviews are medium to large organizations, either multi-purpose community-based or basic needs agencies or part of a public educational institution with staff of 50 or more. They differ from the surveyed agencies, which are much smaller organizations (more than half employ fewer than 10 people), and from nonprofits in the state (more than four-fifths of which employ fewer than 15 persons). Although two-thirds of the surveyed agencies receive state grants and contracts and two-fifths receive federal grants and contracts, only 16 percent of the surveyed agencies have budgets over \$1 million.

***The average budget and annual revenues of nonprofit contractors are much smaller than their public agency and for-profit counterparts.***

The average budget of the nonprofit contractor organizations we interviewed is \$6.7 million, with a range from \$1.8 million to \$12.6 million. In turn, the nonprofit contractors are much smaller than their public agency (taken together the nonprofits' annual revenues do not equal the annual state appropriation for the community college system) and for-profit counterparts (the annual revenues of the national firm, MAXIMUS are nearly 10 times larger than the combined nonprofits' annual revenues).

As noted earlier, with the exception of the Bridge Intervention Services, all ABC

contracts are pure pay-for-performance. For the state, performance measurement is primarily a strategy for achieving accountability in service delivery. Performance-based contracting ties performance measurements to the payment structure, rewarding contractors for specified aspects of production. Delaware sought assistance from The Rensselaerville Institute (TRI), a private firm specializing in performance measurement and outcome funding, to help develop its RFP and contract and explain the rationale for performance-based contracting to DSS staff and the providers. Among all of the sites studied by the Mathematica Policy Research group (Winston et al., 2002, McConnell et al., 2003), the Brookings Institution project (Sanger, 2001), as well as those reviewed in the 2002 GAO report, Delaware stands out in its total reliance on pure pay-for-performance contracts. All of our interviewees had other government contracts (ranging from 14 percent to more than 50 percent of the nonprofit contractors' annual revenues), even other outcomes-based contracts, but the ABC contract is their only performance-based contract.

***Delaware stands out in its total reliance on pure pay-for-performance contracts.***

***Instability of contract arrangements results in administrative and financial burdens for contractors in Delaware.***

Interviewees commented on the instability of contract arrangements and its effect on their agencies. As noted earlier, although the RFP covers two years, contracts are issued for one year, with an option to renew for a second year. During the first statewide contract cycle (1997-1999), there were numerous contract modifications, some at the request of contractors. One major change was to equalize the percentage payment for early and later retention payment points. Interviewees reported that in the most recent contract cycles, contract terms (payment points and performance goals) have changed not only across RFP cycles but within them. The frequency of contract changes (together with the delays in payment associated with the pay-for-performance structure) result in administrative and financial burdens for contractors in Delaware.

Contractor attainment of performance goals has varied in the most recent contract cycles. It is important to note that contractors' performance may reflect local context as much as organizational effectiveness, since differences in economic conditions or the characteristics of clients can influence program results. Interviewees told us that

nonprofits' mission orientation affects how they provide services and respond to contract incentives. They see nonprofit agencies as more likely to meet the needs of their clients regardless of their contract obligations. Similar to other studies, they see for-profits as holding closely to the conditions of the contract and driven by performance outcomes.

***Nonprofit and public agency ABC contractors achieved and exceeded performance targets more frequently than their for-profit counterpart.***

Interviewees also perceived a difference in management style and program approach between for-profits and nonprofits. Case management provided by nonprofits is generally thought to be more holistic than that of for-profits – addressing the needs of an entire family, for example, rather than the adult head of household alone. Despite these differences, overall, in Delaware, the nonprofit and public agency ABC contractors achieved and exceeded performance targets more frequently than their for-profit counterpart.

According to DOL, between October 1999 and September 2001, all four nonprofit Keep a Job (retention) contractors exceeded the performance target for enrollments (actual to planned). Achievement of 90 day retention performance goals varied slightly, with two KAJ contractors at goal and two others within one percentage point. Only one KAJ contractor achieved the 180 day retention performance goal, three of the four achieved the 270 day retention goal, and none achieved the 360 day goal. From October 2001 through July 2002, all four nonprofit KAJ contractors achieved the enrollment target, two achieved the 90 day retention goal, and two achieved the 180 retention goal (Delaware Department of Labor, 2002a).<sup>13</sup>

There was more variation in performance among Employment Connections (placement) contractors. Between October 2000 and September 2001, all four EC contractors (one for-profit, three public agency sites) exceeded the performance target for enrollments (actual to planned). Two of the public agency EC contractors achieved the job placement performance goal. None of the EC contractors achieved the 90 day retention goal. From October 2001 through July 2002, of the three EC contractors (one for-profit, two public agency sites), one of the public agency EC contractors achieved the enrollment goal, the two public agency contractors achieved the job placement goal,

<sup>13</sup> All of the Keep a Job contractors in the period discussed were/are nonprofit organizations.

while none of the EC contractors achieved the 90 day retention goal (Delaware Department of Labor, 2002b).

An independent audit conducted by the state Office of Auditor of Accounts found deficiencies in the monitoring conducted by DSS and DOL (Delaware Office of Auditor of Accounts, 2001). Examiners found insufficient documentation to confirm some outcomes under the pay-for-performance contracts. In addition, the audit identified overpayments on contractors' claims and recommended improved management controls.

The ABC pure pay-for-performance contract and payment structure places all of the risk on the contractor organization (which depends on the state or other contractors for referrals), requires sophisticated client data collection and monitoring, and often results in significant cash flow problems (McConnell et al., 2003). Several contractors mentioned that although significant data and information sharing is required of contractors, there is not reciprocity on the part of the state agencies. One said, *"Information goes up but feedback never comes back down to us. I do not feel like this is a partnership with the state."*

***The ABC pure pay-for-performance contract and payment structure places all of the risk on the contractor organization and often results in significant cash flow problems.***

The reduction in referrals (for between three to five months in the different counties) associated with the January 1, 1999 DSS systems, operational and policy changes, resulted in some nonprofit agencies incurring significant income losses, in one case \$80,000 (ABC LCT New Castle County, January 1999).<sup>14</sup> In addition, the generalist ABC workers were seen to be so inadequately prepared for their new jobs that a group of New Castle County nonprofit ABC contractors provided them with training sessions on ABC regulations and procedures to ensure that referrals for the performance-based ABC contracts were forthcoming (ABC LCT New Castle County, February 1999). This perspective on lack of training was corroborated by DSS workers in interviews with members of the Abt Associates evaluation team (Fein & Thompson, 1996; Werner,

<sup>14</sup> Recognizing contractor risk associated with low referral rates, DOL made adjustments to Keep a Job (retention) contracts based on the contractor's deficit amount, divided by the overall best 360 day retention rate (yielding a per percent deficit cost which was multiplied by the individual contractor's 360 day retention rate and then multiplied by 100). However, in no case did contract adjustment payments bring the total payment up to the original contracted amount and only high performers received significant payments. Subsequently, DOL made minimum referral guarantees part of the KAJ contracts.

Valente & Pocari, 2001).

All of the contractors we interviewed reported that low referral numbers, delays in payment, and other implementation problems created significant financial, staffing and other problems in their agencies, especially during the first contract cycle, 1997-1999.

***Low referral numbers and delays in payment create significant financial, staffing, and other problems for agencies.***

Contractor's concerns with referral flow have continued, although they are not as significant as in the early years. Several interviewees reported that they have been experiencing some current problems with referrals because of the state hiring freeze; DSS positions are not being filled and DSS has between a 15 and 20 percent vacancy rate. A related issue is DSS workers knowledge about the programs. One contractor told us that

*“The majority of DSS workers are knowledgeable about Employment Connections [placement] so there is more attention and focus placed at that time. By the time they get into Keep a Job [retention], workers' interest and support seems to decrease – they seem not to put as much effort into the rest of the process.”<sup>15</sup>*

One nonprofit and one for-profit contractor organization terminated their Get a Job (placement) contracts during the first contract cycle. Both contractors had extensions on their contracts through June 2000, when all GAJ participants would enroll in Employment Connections and GAJ would end. West End Neighborhood House, which had also been a First Step (JOBS) contractor, terminated their contract effective June 30, 1999. The national for-profit firm, Curtis and Associates, which had picked up WENH's clients, terminated their contract effective September 30, 1999. WENH laid off the ABC staff that could not be moved to other agency programs and Curtis and Associates left the state. DOL made offers to Salvation Army, Delaware Elwyn and Children and Families First to take over the Get a Job contracts from October 1999 through June 2000.

Other interviewees that lost contracts laid off staff and closed offices. The Salvation Army eliminated eight positions and closed offices when the Teen Stay

***Agencies that lost contracts laid off staff and closed offices.***

in/Return to School contract was terminated in June 2002. MAXIMUS laid off staff

<sup>15</sup> This difference may have implications for the comparative impacts on for-profit, public agency, and nonprofit contractors, as the for-profit and public agency contractors hold Employment Connections contracts, while all of the Keep a Job contractors are nonprofits.

when their contract was reduced in scope from the entire state (Workfare, 1997-1999) to half of New Castle County (Employment Connections, 1999-2001). The Wilmington/Stanton campus of Del Tech laid off staff when they lost the Employment Connections contract (2001), as did the Terry campus when the Teen Stay in School/Return to School program was terminated (2002).

While not its direct objective, performance contracting indirectly influences the capacity of contractor organizations by creating incentives for organizations to invest their resources - among them staff time, expertise, and material supports - in those activities seen to contribute most directly to the bottom line. Interviewees varied in their management approach to meeting performance goals.

***Performance goals are identified at the program level and communicated to frontline staff on a collective basis.***

Most identified performance goals are identified at the program level and communicated the goals to frontline staff on a collective basis. In contrast to the other contractors, MAXIMUS assigns a monthly goal number to each employment specialist and pays staff bonuses based on their individual contributions to meeting contract goals.

Although case loads are much lower for contractor agencies (50-150) than DSS (180-225), several of our interviewees noted that in order to meet their performance goals with existing staff, they often don't spend as much time with individual clients as case management ideally calls for. This contractor characterized their way of working with clients as "*Head 'em up, move 'em out.*" Other contractors echoed this concern, one said, "*Basically you do the minimum in these programs. You get the money and you know.....*" Another mentioned that "*There's still pressure on frontline workers to perform and get results under the contract. They can't afford to spend time doing things for clients that may be necessary. They need to be productive...*"

Capturing the tension between agency mission and performance goals, another interviewee told us

*"The agency has been under the performance-based system for five or six years, but it's taken this long to develop a system of mastery to try to provide quality service but also to earn the sufficient income level that is necessary to operate the service. The milestone levels don't necessarily match up with clients' lives. And there is no built in safety net for the agency. You either have the option of over enrolling so you have a built in base that you can afford to lose. But if you don't have a high ratio of people coming in you barely have the level to sustain the agency."*

However, another contractor said that although the way performance goals are calculated (as a percentage of enrollees) created challenges for their program in keeping people enrolled over time, they were able to offer a client retention incentive in line with the agency mission of client empowerment.

This agency offers an Individual Development Account (with a 2:1 match up to \$1500 total if a client saves \$500) redeemable after a year in the program. Another organization provides a \$20 incentive for clients to enroll in its program.

***Interviewees reported tension between agency mission and performance goals.***

Several contractors received performance bonuses in the most recent contract cycles. One nonprofit contractor told us that *“There was a price for the bonus because our percentage rate has also now increased. The performance requirement went up seven percent. So now there’s a higher bar to meet. The money was not quite as attractive after that.”* Similarly, another interviewee said, *“However, even as the overall contract amount has gone up, the actual pay for performance has not increased. This is because the better you do the less you get.”*

Other problems with the administration and implementation of the ABC performance based contracts have included: contractors’ ability to get payment point information into the DOL automated system and access to DCIS II (ABC LCT New Castle County, September 1999), low level of referrals to the only agency in New Castle County providing bilingual services to Spanish speaking ABC clients and to another New Castle County contractor primarily known for providing services to persons with disabilities (ABC LCT New Castle County, January 2000), the number and incompatibility of the required reporting systems, which is cumbersome and leaves room for error (ABC LCT Kent County, December 1999; ABC LCT Sussex County, December 1999), situations where the vendor contract and DSS policy are in conflict regarding acceptable reasons for sanctions (ABC LCT Kent County, January 2000), concerns about eligibility for transitional Medicaid and the effective date for the “Stop the Clock” policy (ABC LCT Sussex County, January 2000), problems with DCIS II client and milestone tracking, which negatively affected payment points (ABC LCT Kent County, February 2000; ABC LCT New Castle County, February 2000; ABC LCT Sussex County, January

2000), referrals going to the wrong county (ABC LCT Kent County, February 2000), and inability to access the state email system resulting lack of referrals and other pertinent information being distributed to other contractors (ABC LCT Sussex County, February 2000).

*Competition with For-Profit Service Providers and among Larger and Smaller Nonprofits*

States, counties and local jurisdictions vary in the scope of their welfare reform contracts, but also in whether they award one large contract or more numerous small contracts, covering individual regions or service components. Issuing a few large contracts limits the cost of contract administration and monitoring, allows contractors to reap economies of scale in

***“They’re paying these for-profit organizations an enormous amount of money and they gave us peanuts and we did a better job.”***

providing services, and permits greater coordination and service integration. Issuing more numerous, smaller contracts allows contractors to specialize by service or by population and can enhance competition by increasing the number of incumbent contractors that can compete, and by bringing in smaller organizations that may lack the financial or operational capacity to compete for large contracts (McConnell et al., 2003; Martinson & Holcomb, 2002; Winston et al., 2002).

Delaware has issued both large, statewide contracts and smaller, specialized contracts focusing on particular geographic areas (the city of Wilmington, or one of the state’s three counties) and populations (Latinos). MAXIMUS received a statewide contract to implement workfare in the 1997-1999 contract cycle, while the two smallest contractors, West End Neighborhood House and Latin American Community Center, received several small, specialized contracts. Although some of our interviewees remember being told by DSS and DOL staff that the focus would be on larger contracts in the second contract cycle (1999-2001), in the last two RFP cycles, all contracts have been issued for a particular program and geographic service area, e.g., Teen Stay in/Return to School in one-half of the state’s school districts, Keep a Job in New Castle County, or Employment Connections in Kent County. In 2002, the state issued eight contracts, between \$0.2 and \$1.6 million, with the scope of contracts defined by county and service, placement or retention support (McConnell et al., 2003:19).

Similar to the findings in other studies (Brodkin et al., 2002), although nonprofit organizations received a higher number of the contracts awarded, for-profits and the public agency received a much higher percentage of the contract dollars. For example, of the nine ABC contracts (totaling \$5,861,230 in expenditures) awarded between July 1998 and August 2000 that were audited by Delaware's Office of Auditor of Accounts, four were awarded to nonprofit organizations (two to the Salvation Army and one each to West End Neighborhood House and Ministry of Caring), three to the public agency (Delaware Technical and Community College), and two to for-profit firms (MAXIMUS, Inc. and Curtis and Associates).

***For-profits and the public agency received a much higher percentage of the audited contract dollars.***

However, nearly half (47.79% or \$2,801,335) of these audited contracted dollars were paid to the for-profits firms, with nearly two-fifths (38.22%) of the total contracted and audited dollars paid to MAXIMUS which received \$2,240,073.<sup>16</sup> The public agency received \$1,929,560 or about a third (32.92%) of the audited contracted dollars, while the four nonprofit agencies together were paid \$1,130,355 or about a fifth (19.29%) of the total audited contracted dollars during this period (Delaware Office of Auditor of Accounts, 2001:4). Media coverage of the audit highlighted the findings that one contractor, MAXIMUS, had been paid \$12,000 for the job placement of a husband and wife, who worked for about three months, earning less than \$3,000. The audit also raised issues about a sliding scale fee in which the payment per client to MAXIMUS increased if there was a decline in referrals. According to DSS, the payments were made according to the contract provisions (Portman, 2001: B1). Several of the interviewees commented on the audit, which is available on the state website ([www.state.de.us/auditor/health/dhssabc.pdf](http://www.state.de.us/auditor/health/dhssabc.pdf)). One noted, *"They're paying these for-profit organizations an enormous amount of money and they gave us peanuts and we did a better job."*

Other indications of competition are the ratio of bids to awards and the frequency in which contractors lose a contract to another contractor. In the 2001 procurement, there were eight to 10 bids per three or four contracts. In the 1999 procurement,

<sup>16</sup> In addition to the performance fees, the MAXIMUS contracts provided that the state pay \$304,237 for locating, negotiating and leasing three office sites, furnishing and equipping the sites, hiring and training staff and ordering and installing hardware. None of the other contracts contained such payments (Delaware

representatives of 22 organizations attended the mandatory pre-bid meeting and 13 contracts were awarded. Of the three incumbent contractors who held placement contracts (Get a Job) between 1997 and 1999, two lost their contracts in the 1999 procurement. One lost its contract to another incumbent contractor and the other lost to a new contractor. In the 2001 procurement, one incumbent contractor lost a placement contract (Employment Connections) and one incumbent expanded its geographic coverage. Even more turnover occurred in the contractors who held retention (Keep a Job) contracts. Of the six contractors who held retention contracts between 1997 and 1999, three lost their contracts to other incumbent contractors in the 1999 procurement. In the 2001 procurement, one of the three remaining incumbent contractors was replaced (McConnell et al., 2003: 29).

***Contractors frequently lose contracts to another contractor.***

Interviewees were divided on whether they saw more or less competition for ABC contracts, comparing the first, second and third contract cycles. One incumbent said, *“It got really competitive two years ago [2001 procurement]. There were so many [incumbent] contractors but the numbers [referrals] were low so there was competition because there were going to be contractors out.”* Another noted *“It doesn’t get any easier. It’s still highly competitive...Someone is always coming in each cycle either to provide the service statewide or to take a specific portion of the population. But we have been able to hold on.”* Agreeing, another interviewee said, *“There is more competition now. It’s definitely a challenge.”* One former contractor said *“Our agency was one of the best performers, but the state awarded the contracts to for-profit businesses. It seemed like the decision was made before bids even came in.”*

Others saw it differently, one incumbent contractor said *“Each year the contracts are generally being awarded to the same companies so other companies would probably not bid because [our organization] is a strong performer.”* Another incumbent agreed, *“[Our agency] has always been the main contractor. I don’t know of any other agency in the county that would be able to handle the influx.”*

The interactions and relationships among the different contractors are also of interest. Several interviewees spoke about their approach to working with ABC clients

and contrasted it with the approach of other contractors, comparing the approaches of smaller and larger nonprofit contractors and nonprofit and for-profit contractors. Several of the smaller contractors expressed concerns about how ABC requirements affect clients and saw intervention with DSS workers and advocacy to make changes in the program as part of their job. In contrast, one of the larger contractor organizations characterized their interactions with the state as a business relationship and said that they “*do not really get involved with the ABC/DSS side of the program.*” The community-based nonprofits also perceived that they operated their contracts differently from the larger organizations and the for-profit contractors.

Although the Mathematica Policy researchers (McConnell et al., 2003: 32) conclude that in Delaware the contracts are small enough that even small community-based organizations can compete, our findings differ. Our interviewees see a distinct disadvantage for small organizations. One of the larger contractors observed,

*“Because of the way the contract is structured there was no upfront money. So if you did not have an organization that could support you, you could not have done this contract because you only get the money months and months and months later, because the mechanisms were not in place. At the beginning we had to borrow from [other parts of our organization] and sometimes still do.”*

Several of the nonprofit contractors told us that there was a lot of distrust between their agencies and the for-profit contractors. A few perceived problems in the reliability of the for-profit contractors’ performance reports and wondered why poor performance resulted in continued contracts. Other interviewees commented on the lack of commitment to the local community exhibited by the for-profit contractors, one said “*Curtis found out that maybe Delaware was a little harder than they thought. Curtis and Associates won that contract and then [when they lost it] they got out of town fast.*”

Some interviewees complained about Workfare and Employment Connections placements made by the for-profit contractor to their agencies, saying that the clients did not come with any information about what the program’s requirements were and that the for-profit contractor relied on the nonprofits to provide the case management services that the for-profit was being paid for. Discussing the hand-off from the placement to retention contractors, one nonprofit contractor said that the for-profit Employment Connections contractor needed to be more accountable for the way that they send people

to them. This contractor said “*There are some serious flaws; they’re unorganized, they don’t train their staff well, they’re not responsive, they don’t communicate well with the clients.*” Others saw the for-profit firms as having an unfair advantage in infrastructure and cash flow - “*They had these fancy materials and it looked really impressive*” - and believed that they were treated differently by the state.

*The Role of Nonprofit Organizations as Advocates*

Nonprofit organizations’ role as advocates – for specific causes, for specific population groups, or for specific programs – is not yet well understood although the nonprofit sector has historically served as a voice for articulating public needs and preferences. While only a small share of nonprofit organizations make advocacy and legislative activity their primary concern, almost all are affected by changes in public policies (De Vita, 1999). Many nonprofits organize and mobilize people, conduct and disseminate research, raise public awareness about policy issues, educate government about appropriate regulations, meet informally with elected officials, represent individuals and groups before the judiciary, encourage basic civic participation through voting and much more.

Recent findings from the Strengthening Nonprofit Advocacy Project (SNAP) show that 86 percent of nonprofits participate in one or more public policy related activities at some point during the year. However, the frequency of participation is low. More than two-thirds (69%) of nonprofits either never engage in direct lobbying or do so infrequently; more than three-quarters (77%) have either never testified before a legislative body or do so infrequently (Arons & Bass, 2002).

The top three factors motivating public policy participation in the SNAP study are: when the policy activity is in support of the organization’s mission, when there is a need to raise public awareness on an issue, and to protect programs that serve clients, constituents, and community. Leaders of organizations that conduct business with government through grants and contracts went further to say that, because they have a working relationship with government to provide services, it is important that they offer policy ideas and lobby for them. SNAP found that associations can be a strong impetus for nonprofits to lobby. The more nonprofits are asked to respond to various calls to action to contact legislators, the more they will do so. E-mail and the internet are

facilitating nonprofit advocacy, making it easier to them to send letters to legislators (Arons & Bass, 2002).

There are also several persistent barriers to greater public policy participation by nonprofits, including language (no common definition of public policy involvement), limited time and financial resources, lack of staff skills, and IRS regulations governing public policy participation. A fifth set of barriers concern the influence of funding sources, including foundations and government. Government funding may be one of the most challenging barriers for executive directors when deciding whether to lobby for or against legislation or proposed regulations. The central question they feel they must answer is: Can we afford to bite the hand that feeds us? In the SNAP study, three out of four nonprofits receiving government grants or contracts think government funding is a barrier to their participation in policy matters (Arons & Bass, 2002).

In Delaware, among the interviewed contractor organizations, there has been a hesitancy to directly participate in lobbying and advocacy on welfare reform, with only three of our eight nonprofit interviewees taking these roles.

Several of our interviewees noted that it is very hard to be an advocate when you're dependent on state money. One

***Welfare contractors in Delaware are hesitant about engaging in advocacy.***

former contractor saw advocacy as part of the reason they were not awarded additional contracts. Interviewees also complained about their lack of participation in the development of the contracts' performance measures and goals, about lack of responsiveness to their suggestions about how to improve reporting systems and communication, and about having to "endlessly" repeat complaints before action was taken.

Another way in which a contracting relationship with the state negatively affects nonprofit agencies is by having a chilling or deterrence effect on media communications. In at least one instance state officials were concerned about and intervened in the communication between a local newspaper reporter and several welfare reform contractors. This episode illustrated that state officials (and some contractors) are acutely aware of criticisms of welfare reform being articulated by welfare reform advocates and sometimes, by the media.

One way that some of our interviewees have overcome this obstacle is by

participating in a local advocacy coalition, Citizens' Inquiry on Welfare Reform (see Curtis, 2001). This group of service providers, civic groups, and at times, low-income recipients, has successfully promoted changes beneficial for recipients in state legislation (allowing education to substitute for part of the work requirement) and regulations (stopping the time clock if meeting the work requirement, reducing wage garnishment for previous overpayment) and heading off regulations they saw as harmful to recipients (adding Food Stamps to work sanctions, reducing time limit to 36 months instead of 24 months). However, some of the group's other advocacy efforts were unsuccessful (changing the sanctions policy, fighting the elimination of cash assistance to teen mothers and their babies). Local nonprofit advocates believe that they do not have access or legitimacy in the state policy making arena, in comparison to business interest groups.

Since 1999, Citizens' Inquiry has worked with the state Senate Committee on Health and Social Services to monitor service quality and policy compliance, through a public hearing on welfare reform each year and by facilitating the annual fielding of interviews about the impact of welfare reform changes on low-income families (Curtis & Klar, 1999; Curtis et al., 2000; Curtis et al., 2001; Curtis et al., 2002).

Despite their reluctance to participate in advocacy, nonprofit contractors do see contradictions between their agency mission and values and the goals of the ABC program which they discussed in our interviews. One contractor told us that

*“People were coming in testing lower than 4<sup>th</sup> grade and we were expected to get them a job. But where could they get a job making a livable wage? It was impossible....”*

Another contractor said

*“The rules keep us from serving the most vulnerable because we're not contracted to serve them – so it's sort of a Catch-22. There are people who are in the system and sanctioned off – people that we don't know about so we can't really give the holistic service that we'd like to give.”*

In response to the question “What changes (if any) would you suggest for ABC?” Some contractors focused on changes to benefit clients.

*“Allow for more education to count as a work activity, increase the TANF/ABC benefit amount, and establish honest-to-goodness hard skills training programs that are aligned with labor market trends that the state would pay for.”*

*“They need to help some of the people who need jobs because people cannot make it on the low-wage jobs that they generally get – more training opportunities are needed.”*

*“The programs should allow for intensive case management, include transportation assistance, and focus more on education.”*

*“Address the transportation problem; provide more assistance with utility and other bills in arrears, provide more short skills training programs.”*

*“Clients need the opportunity to think about what they want to do, to choose a career – now they have no options; they have to take any job because they have to support their families.”*

However, one contractor saw the programs as too permissive for clients and argued for increasing the work participation requirement to full time hours. *“This [part-time work] should only be temporary. There should be a feeling that they’ve got to move on. This would help them become truly independent.”*

Others were more concerned with changes to the contracting system, advocating for hybrid contracts that include pay-for-performance and cost-reimbursement payment structures, more quality control in the referral process (from DSS and between contractors), increases in grant diversion payments, faster turnaround with DSS in terms of sanctioning, making the electronic reporting system more user friendly, and more receptiveness by state workers to contractor suggestions. One interviewee was adamantly opposed to the pure pay-for-performance contract structure. *“It’s a one size fits all approach. There’s this [customized] rhetoric surrounding it but it does not really work that way.”* Another argued for longer contract periods, said there should be parity among contracts (in terms of payment levels at the different payment points), and noted that contractors should not be penalized for doing well, *“When the contract got extended [in 2002] the performance rates changed, but we have to do more to get the money.”* A final recommendation was based on client and contractor effects, *“Raising the full-time standard [percentage achieving full time jobs as a performance goal] is unreasonable given current economic conditions.”*

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