Public-Private Partnerships: A Compelling Alternative for Service Delivery

Contents

The federal funding structure for IV-D programs is dependent upon meeting federal performance goals in five key program areas (paternity establishment, support order establishment, current support, arrears collections and cost effectiveness), improving performance, and increasing TANF and non-TANF collections. Performance in these program areas and collections impact a state's ability to generate federal dollars for its program.

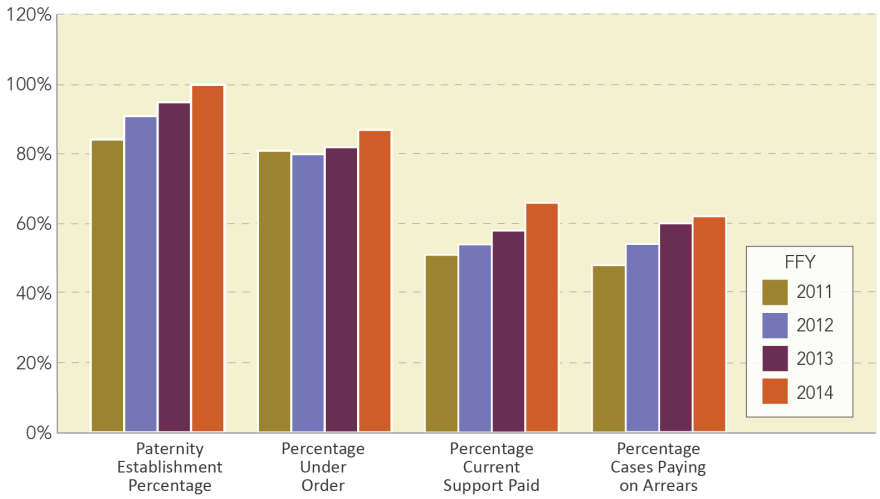
A public-private partnership (also known as privatization and outsourcing) offers states an effective tool to maximize performance and efficiency, minimize operational constraints, and maximize funds based on performance. A public-private partnership allows states to retain program oversight and public policy responsibilities while private contractors manage local operations. By outsourcing, a state can tap into a wealth of expertise and resources that can enhance program performance and customer service, enable better outcomes for children and families, and secure more federal incentive funds.

This document is designed to help program administrators, public officials and budget staff members explore public-private partnerships as a viable alternative to deliver child support services, improve performance, and overcome barriers to service delivery at the local level. The paper presents reasons for entering into and maintaining public-private partnerships, potential benefits of privatization, considerations for developing an effective public-private partnership process and structure, and how to prepare for a public-private partnership.

Compelling Reasons for Public-Private Partnerships

There are a number of reasons why states and local governments enter into public-private partnerships for child support services.

- **Increase Program Accessibility to the Public.** The Commonwealth of Virginia entered into a public-private partnership to create more geographic service areas for its constituents and smaller caseloads for existing staff members, which has resulted in better performance and customer service. States can use privatization to form new service areas and reduce caseload sizes. They can achieve this by dividing up larger districts and establishing new privately operated offices.
- **De-Politicize Local Operations.** Privatization offered local officials in Tennessee a solution that enabled them to focus limited resources on child support operations as well as other key responsibilities, such as criminal law enforcement. By privatizing nine judicial districts, Tennessee has been able to focus on child support enforcement in these districts, where it has seen considerable gains in performance and collections.
- **Overcome Challenges of Economically Disadvantaged Jurisdictions.** Baltimore City, Maryland, a large urban jurisdiction with challenging economic indicators and poor performance, partnered with the private sector in September 1996. During the first several years, collections increased by 9 percent and collections per case increased by 53 percent. Moreover, the outsourced program has continued to make performance improvements year after year, as shown in the following table:



Baltimore City Child Support Program Year-Over-Year Gains

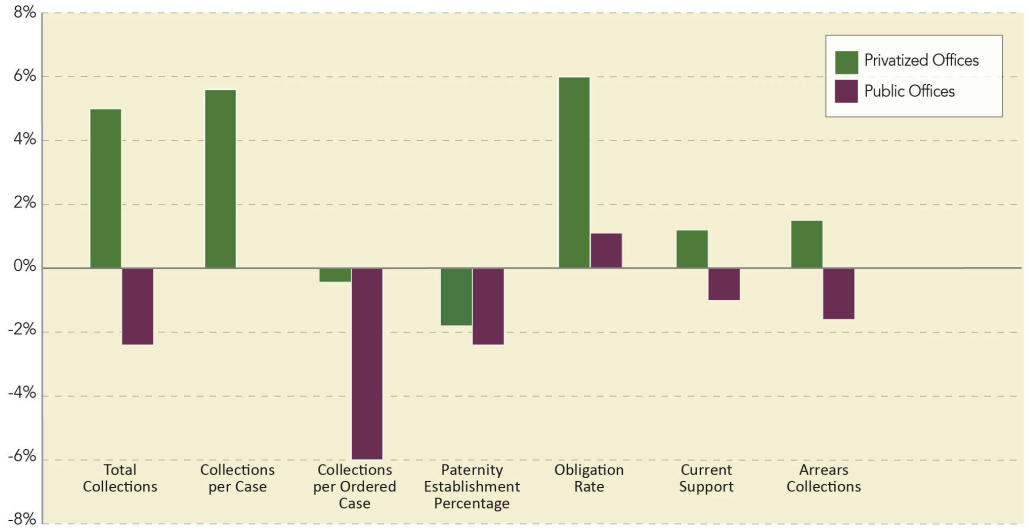
- **Contain Long-Term Costs.** Even with large caseloads, ever-changing federal requirements and high customer demand for services, state child support agencies are often unable to justify — or receive necessary budget authority for — staff increases. Furthermore, a larger staff means more long-term liability for pensions and health insurance costs, which can strain state budgets. Privatization is a way of providing additional resources to a program without adding more public employees and long-term costs.
- **Solve Difficult Structural Issues.** Privatization can be used to consolidate administration of local offices under one entity or to rectify delivery structures in which there is no clear delineation of responsibility for daily program operations. Some states have combinations of state and county oversight; others have split responsibility for establishment and enforcement functions. Outsourcing in these situations can unify service delivery and solidify support of all stakeholders. The State of Wyoming, for example, consolidated its many small county offices. While some counties actually banded together to form multi-county authorities for delivery of child support services, the five judicial districts that did not were privatized by the state.
- **Improve Performance.** Poor performance impacts funds allocation and reduces a state's overall ability to meet federal performance standards that would maximize incentives. A private vendor can

bring a fresh perspective, renewed focus, innovative technologies, best practices and experience to pinpoint problems quickly and effectuate significant performance improvements. The vendor can also be held to contractual standards to ensure that performance goals are being constantly monitored and achieved. Additionally, performance-based contracting models that focus on results and outcomes, rather than processes, can satisfy established metrics while achieving higher-value outcomes that matter most to a state. For example, the MAXIMUS contract with Baltimore City is performance based and includes financial incentives that are tied to attainment of specific federal performance-metric outcomes with a percentage-of-collections fee model. As discussed previously and illustrated in the chart on page 2, the program has made performance improvements year over year since contract inception.

Benefits of Public-Private Partnerships

States and local jurisdictions that initially turned to privatization to solve a problem remain privatized for the various benefits it brings.

- **Enhanced Performance Over Time.** North Carolina outsources 17 of its 100 county-run offices to private vendors, representing 12.4 percent of the statewide caseload. When comparing performance results from state fiscal year (SFY) 2009 to 2013, the outsourced offices outperformed the publicly operated offices in all five key areas and in collections.



Average Performance Percentage Change: SFY 2009 to SFY 2013

Further, the following chart compares performance results of SFY 2013 and SFY 2014. Privatized offices in North Carolina have outperformed public offices, collected significantly more child support per dollar spent and were considerably more cost effective.

	Privatized Office Average		Public Office Average	
	SFY 2013	SFY 2014	SFY 2013	SFY 2014
Current Collections	65.96%	66.03% ▲	66.00%	65.53% ▼
Arrears Collections	66.44%	66.53% ▲	65.50%	64.85% ▼
Paternity Establishment	102.11%	102.76% ▲	102.20%	98.80% ▼
Obligation Rate	90.85%	91.59% ▲	87.20%	85.22% ▼
Cost Effectiveness	$7.27	$8.98 ▲	$6.17	$5.85 ▼

Example of Outsourcing Significantly Outperforming Publicly Operated Offices in North Carolina

In Virginia, the outsourced Hampton District Office has been the number one or two performing office in the state on the federal performance measures for the past four federal fiscal years (FFYs). The following table shows FFY 2014 performance on the federal performance measures for Hampton compared to average results for the publicly operated offices. This high level of performance has been achieved while also maintaining a nearly equal cost-effectiveness ratio to the public office average.

District	Overall Rank	Current Collections	Arrears Collections	Paternity Establishment	Cases Under Order	Cost Effectiveness
Hampton	2	67.11%	66.75%	101.62%	92.30%	$6.82
Public Office Average		63.98%	63.57%	98.14%	89.75%	$6.89

FFY 2013 Performance Data for Child Support Programs in Virginia

- **Improved Customer Service.** To maintain their competitive advantage, private partners continuously invest in program improvements and identify new ways to provide excellent customer service. States that have contracted with the private sector have benefitted greatly from improved customer service. For instance, in FFY 2013 and 2014 and through February in FFY 2015, the Baltimore City office had the lowest rate of customer inquiries of Maryland's five "metro" offices, despite being the largest. In addition, from FFY 2014 to 2015 (October through February), the office reduced the number of inquiries per 1,000 cases from 4.8 to 2.2 inquiries per 1,000 cases.
- **Greater Flexibility and Ability to Adapt to Change Quickly.** Because the private sector is not bound by the long-term commitments and restrictions of traditional governmental hiring models or public procurement processes, vendors have more flexibility to operate and properly staff child support programs. Corporate infrastructures of child support vendors also support rapid execution of decisions, enabling vendors to respond expeditiously to resource needs and adapt rapidly to the dynamic child support program environment. Performance-based contracting models increase flexibility and adaptability even more, freeing vendors to innovate and address challenges quickly.
- **Access to New Technologies, Best Practices and Innovative Approaches.** To maintain a competitive edge and optimize performance, private vendors must continue to innovate. Vendors have introduced contact center technology, optical scanning, data warehousing, outbound calling and Web-based applications, among other innovations, to improve their operations.

  - The privatized offices in Maryland, Tennessee, Virginia and West Virginia were among the first in the nation to implement electronic document management systems, allowing workers in the now "paperless" offices to manage their caseloads with greater security and efficiency.
  - Private vendors piloted case stratification case management approaches in Tennessee that have since led to the adoption of these effective strategies more broadly.
  - Virginia and West Virginia benefitted from proprietary data management software designed by their privatized vendor. The software, developed without cost to the states, extracted data from each respective state's child support system to create specialized reports for in-depth caseload analyses. This software enabled child support personnel in the public and private sectors to "work smarter" by identifying areas of the caseload that needed special attention. It also helped program staff members manage to performance goals.

- **Management Expertise.** When states partner with the private sector, they tap into a wealth of corporate experience and individual expertise to solve problems and enhance services. Most child support vendors have former department and IV-D program directors, as well as experienced public-sector managers and child support professionals on staff. The national program and consulting experience of those vendors provides opportunities to identify best practices, operational efficiencies and lessons learned, and transfer them to operations in other states.
- **Increased Accountability.** Private-sector vendors are fully accountable to the state or contracting government entity for fulfilling the contractual requirements. They are highly motivated to meet contractual requirements or they risk losing both their credibility and the state's business. In addition, failure to meet the requirements can result in penalties, contract termination or non-renewal, and damage to a vendor's reputation in the child support community. Performance-based contracts intensify accountability, as providers shoulder increased financial risk for a given program and are therefore even more motivated to perform.
- **State Focus on "Steering Rather Than Rowing."** When a state is able to rely on a private-sector vendor to deliver high-quality services to families, the state has more flexibility to focus its limited resources on broader public policy issues and program decisions that have a statewide impact.

Considerations for Developing an Effective Public-Private Partnership

In considering privatization as an alternative, state administrators and elected officials should:

Consider Overall Value, Not Just Cost

A high-performing vendor can actually bring greater economic benefits to a state — and more funding to the IV-D program — than a low-performing vendor or government entity, even if the costs of a contract with the high-performing vendor initially appear to be higher than those bid by a less productive vendor or those allocated for current government operation of the program. The federal funding structure for IV-D programs actually generates more revenues for states that focus on improving performance rather than just on cost effectiveness as defined in the Child Support Performance and Incentives Act (CSPIA).

Therefore, when evaluating the potential benefits of privatizing a low-performing office, cost is an important factor, but a state must also consider the additional funding that can be generated through performance improvements.

Clarify Roles and Responsibilities

Each partner in the public-private partnership has a valuable role. Before embarking on a partnership, it is important for the government agency to clarify those roles. For example, the public partner is responsible for developing contractual goals and expectations, setting performance-related incentives, monitoring and overseeing contractual obligations, providing policy guidance and ensuring the success of the program. The private vendor is responsible for providing all operations, meeting contractual performance standards, complying with all state and federal laws, policies and regulations, and introducing innovative solutions and technologies that improve performance. Outsourcing works best when both parties are active participants in owning their roles and holding their partners accountable for superior service delivery.

Be Prepared to Address Public Employee and Key Stakeholder Concerns

Public employees are often skeptical of privatization because they fear losing their jobs. Privatization of full-service offices, however, has not caused widespread workforce reductions for two primary reasons:

- Some states have used privatization to create new local offices that supplement existing offices staffed with public-sector workers. Staffing levels in the publicly operated offices remain the same, although caseloads per worker are reduced. The vendor hires its own staff or transfers staff from other privately operated offices.
- In cases where states and local governments have used privatization to replace publicly operated offices, vendors seek to hire experienced, qualified employees. Toward this end, vendors typically interview and recruit displaced public workers as they offer very valuable skills. Some contracts contain provisions requiring the winning vendor to hire — or at least interview — tenured public employees.

Keeping public employees informed and soliciting their input is crucial to achieving their support. If existing offices are to be privatized, the IV-D agency can work with the incoming vendor to facilitate the interviewing process for public employees and to conduct orientation sessions that provide an overview of the contract, company and benefits packages, which are typically competitive with state benefits packages.

Other key stakeholders of note include legislators, elected officials, agency partners and unions. They need to be assured that privatization is a responsible alternative that will not harm these groups' respective constituencies. Sharing the impact of privatization in other states will not only help mitigate concerns, but also will allow stakeholders to provide their input regarding the major goals and expectations of the privatization effort.

Preparing for a Public-Private Partnership

There are many resources and activities that can help government agencies prepare for an effective public-private partnership.

Take Advantage of Resources

- **Review Other State Materials.** Government requests for proposals (RFPs), RFP amendments and clarifications, vendor technical and pricing proposals, and contracts are generally considered public information by states. As such, they are available for public review after the selection process has been completed and a contract has been awarded. This material can be very informative to states interested in pursuing full-service privatization. States can adopt language from other state and local government RFPs and contracts that best meet their needs.
- **Speak with Others.** Speaking with other state IV-D directors and contract managers with privatized operations allows states embarking on privatization to gain a better understanding of best practices and lessons learned. Discussions with decision makers, public officials, unions and public employees enable government agencies to identify issues and address concerns. Conversations with private-sector vendors about their approaches, challenges and recommendations can help ensure the success of the procurement and contract.
- **Release a Draft RFP.** Before releasing an official RFP, consider releasing a draft RFP. This process allows vendors to review and provide feedback on the draft RFP. This extra step gives state agencies an opportunity to incorporate valuable feedback and develop an effective RFP and contract.
- **Review Other Resources.** Published by the federal Office of Child Support Enforcement (OCSE), *A Guide to Developing Public Private Partnerships in Child Support Enforcement* provides useful information about privatization.

Establish Key Contract Provisions

A vendor's adherence to federal and state laws, regulations, policies and timeframes is of the utmost importance to a state considering privatization. Contracts should contain provisions for contract monitoring, audits, corrective actions and liquidated damages to ensure vendors meet all legal and policy requirements.

Good contracts are also outcome-focused. This is particularly true for full-service contracts because performance in the five federal performance measures drives incentive funding. Many states set annual goals to stimulate performance improvement. For example, if a state is achieving a performance level of 72 percent for obligated cases, and the national average is 80 percent, the state might aim to increase its statewide average by 2 to 3 percentage points each year. Likewise, many states set regional or local goals for offices that perform below the state average. These types of performance goals can be utilized in contracts as well.

The most effective goals are:

- Results-oriented
- Specific, clear and measurable according to a baseline
- Unique to the state and the demographics of the privatized region
- Pragmatic and achievable, yet sufficiently motivating
- Accompanied by realistic performance-related incentives and liquidated damages that are consistent with the pricing structure

Once performance standards are established, a vendor's failure to achieve or maintain performance in each category in a given year results in an imposition of liquidated damages. The liquidated damage, however, can be avoided if the vendor attains pre-specified levels of performance the following year. This structure promotes vendor responsibility and accountability, yet allows a reasonable amount of time for the vendor to take corrective action if performance in one or more areas is deficient.

Determine a Pricing Model

Full-service pricing mechanisms are most effective when they balance risk and reward on both sides of the relationship. Evaluation models and fee structures should encourage vendors to provide adequate numbers of well-trained staff, technology and other resources without taking on undue risk. If a vendor achieves minimum contract requirements, it should be confident that its direct project costs and corporate support costs will be covered. If a vendor performs very well, it should earn a reasonable fee on top of its direct project costs and corporate support costs.

Although states can be as creative in setting pricing structures as they are in establishing performance goals, there are three basic pricing models in use today.

- **Fixed-Price Model.** This model requires the vendor to propose a firm amount for each contract year as well as a total price for all years. El Paso County, Colorado, uses a fixed-price model, coupled with incentives. The county awards a percentage of the fixed contract price for meeting or exceeding goals in any of six performance areas (the five federal performance areas plus medical support). The opportunity to earn incentives above the fixed price helps motivate vendors to invest in innovations, best practices and operational resources to achieve even higher levels of performance.

  The primary advantage of a pure fixed-price model is that the cost to the state is predictable, which makes budgeting easy. The major disadvantage is that it gives the vendor little flexibility to commit additional resources beyond what it included in its proposal. Furthermore, in a competitive procurement, this issue is compounded by vendors working to offer the lowest price possible. The addition of incentives mitigates the problem if the incentives provide the vendor with sufficient financial rewards to offset additional investments that could lead to more substantial performance improvements. Mississippi, Tennessee and Wyoming also use a fixed-price model.
- **Contingent-Fee Model.** Under this model, the vendor is paid a percentage of the collections it generates. The model offers contractors greater opportunity to make investments in performance improvements that drive collections. States and their customers benefit when collections increase. Contracts can be structured to set minimum performance requirements in all areas to ensure that enforcement (collections) does not take precedence over establishment. Over the long run, vendors know that the only way to ensure a steady stream of revenue is to work all aspects of the caseload and move cases as rapidly as possible from establishment to enforcement, while adhering to due process of law and other legal requirements. Maryland, Nebraska and Virginia use a contingent-fee model.

- **Performance-Based Model.** In performance-based models, some or all of the payments made to the contractor are contingent upon the delivery of outcomes that matter most to a state and the children and families it serves. Ideally, the state identifies a few key performance measures that become pay points that are clearly aligned with its vision for success. For example, the core measures of child support programs — paternity establishment, collections and cost effectiveness — are the critical, accountable performance outcomes. A key to performance-based contracting is flexibility — enabling the vendor to innovate and "do what it takes" to achieve the desired outcomes. As an example, the El Paso County contract described previously contains a performance-based element in the form of incentive payments grafted to a fixed-fee pricing structure. It is this performance component of the model that motivates vendors to go above and beyond to achieve better outcomes.

A state can also narrow the bid range and minimize costs by specifying in the RFP that the state will assume responsibility for costs associated with fees and direct operation costs such as system access charges, central mailing costs, service of process, IRS offset fees and paternity testing.

Shorter contract periods often lead to higher costs because of the costs of start-ups and turnovers and the inability to amortize major expenses over time. Generally, it is recommended that contracts be a minimum of three years, with options to continue services should both parties agree that continuing the partnership is mutually beneficial.

Conclusion

Privatization is a viable, cost-effective alternative for states that are seeking to address deficiencies at the local level, improve performance in economically disadvantaged jurisdictions, reduce state or local caseloads to worker ratios, and resolve structural or service delivery issues. Limited privatization can also offer the state a low-risk option in which to encourage and evaluate innovative approaches to serving customer needs and meeting outcomes beyond the core focus of child support collections. By outsourcing local child support offices, states can tap into a wealth of expertise and resources that can enhance collections and program performance, enable better outcomes for children and families, and generate more federal incentive funds.

States and local jurisdictions considering privatization of a local office should take advantage of the various resources to make informed decisions and consider more than just cost. A high-performing vendor can more than offset any price differentials by generating more federal performance incentives, additional federal financial participation and increased retained TANF collections to the state that can be reinvested in the program. In short, outsourcing can produce a clear return on investment.

Contact: childsupportinfo@maximus.com

Visit: www.maximus.com/child-support

MAXIMUS

1891 Metro Center Dr.
Reston, VA 20190
maximus.com