

Performance Metrics and Incentives in Outcomes Contracting

SIF ADP Learning Community

July 10, 2018

Purpose

- Build a more robust understanding of performance metrics and incentive structures in Outcomes Contracts
- Examine how performance metrics and incentive structures can be designed to fit the needs of the contracting parties and the community served
- Develop further questions and considerations to contemplate within your project

Contents

Performance Metrics and Incentives Structures (15 min)

Case Studies: (20 min)

- Appropriate metrics and timing for payments: Northern Virginia
- Provider-specific and dynamic targets: King County, WA

Reflection and Discussion (25 min)

Bonus Case Study:

- Incorporating bonus and withheld payments: Santa Clara County, CA

Opening Question: Identifying a personal performance metric

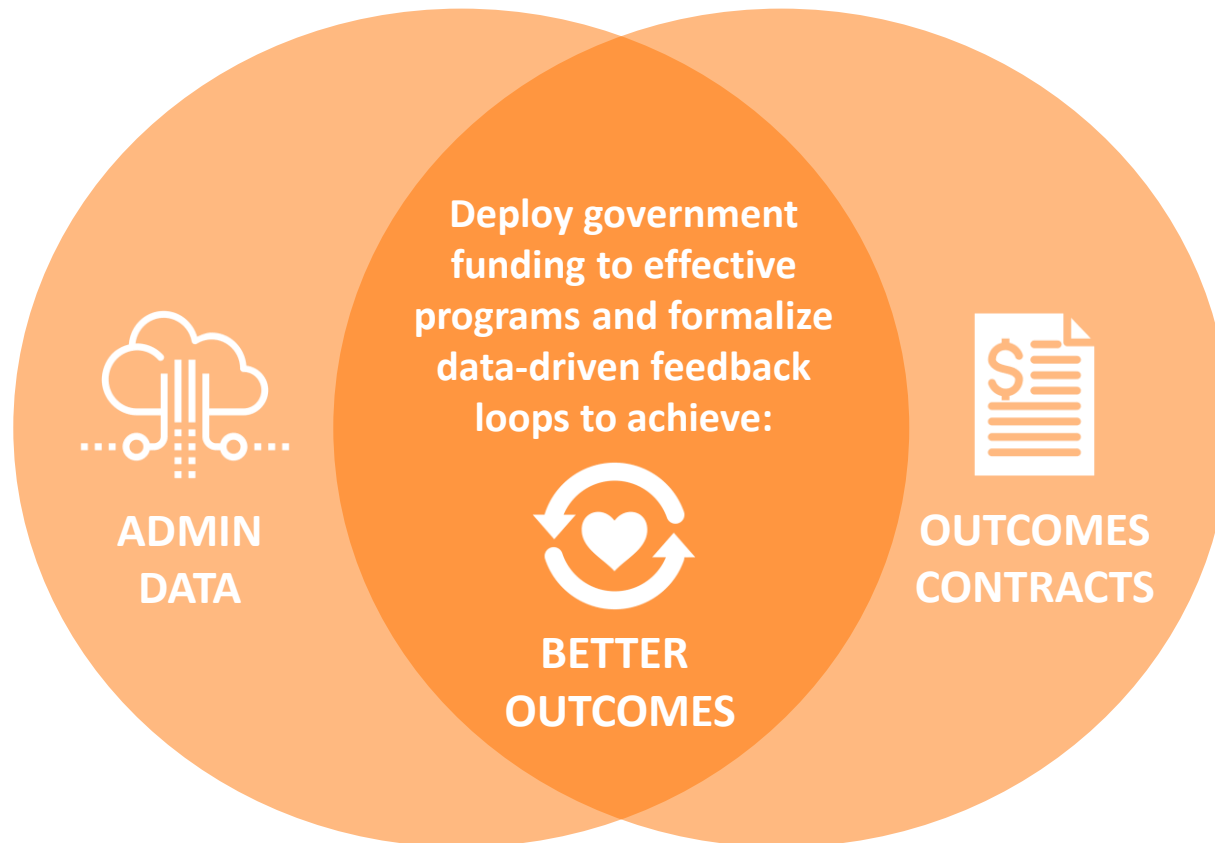
Group Share

- If you could be paid a bonus next year on one **performance metric** related to the job responsibilities you have right now, what would that metric be?
- How could attaching an **incentive** to this metric encourage you to behave differently?



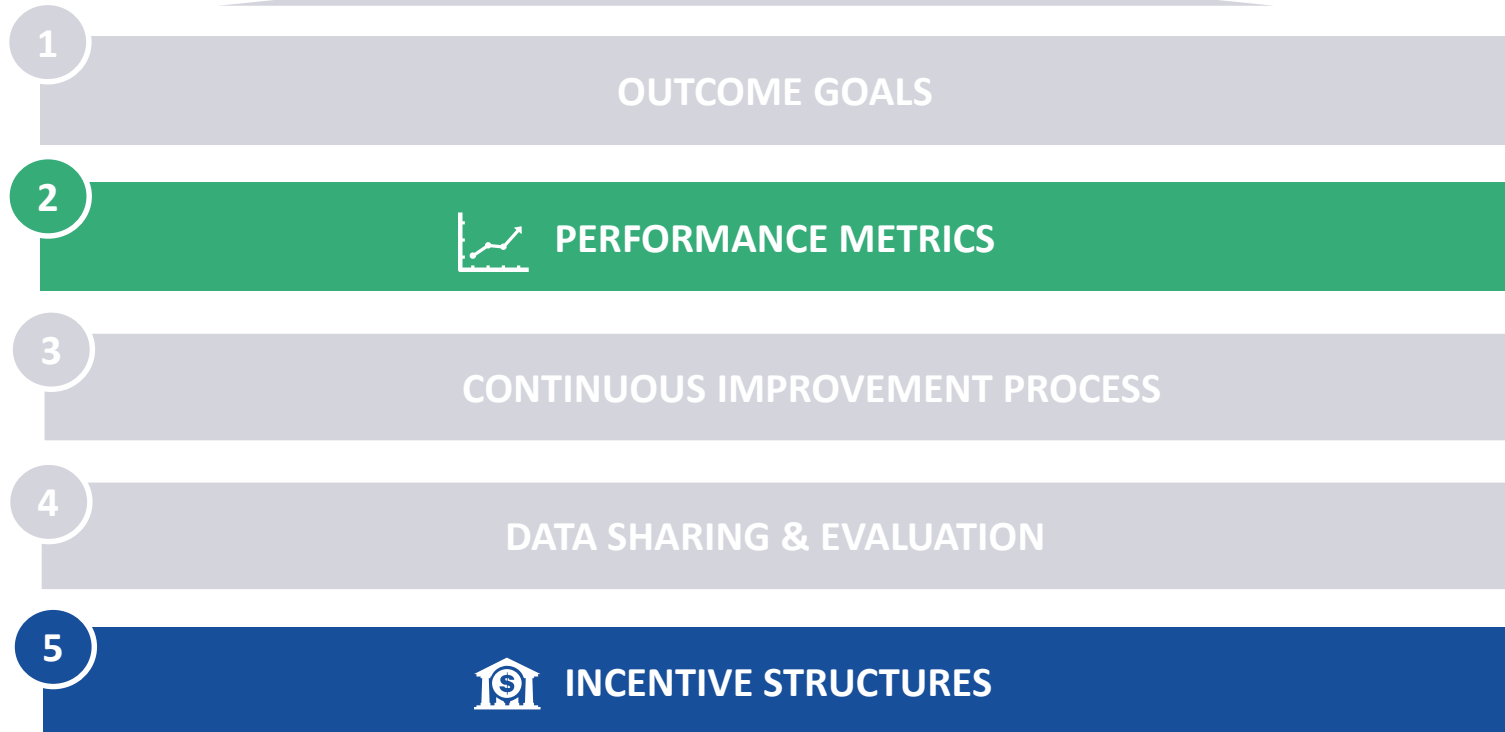
Our vision is to unite administrative data and outcomes contracts to unlock government and provider innovation and measurably improve lives

ADP Vision



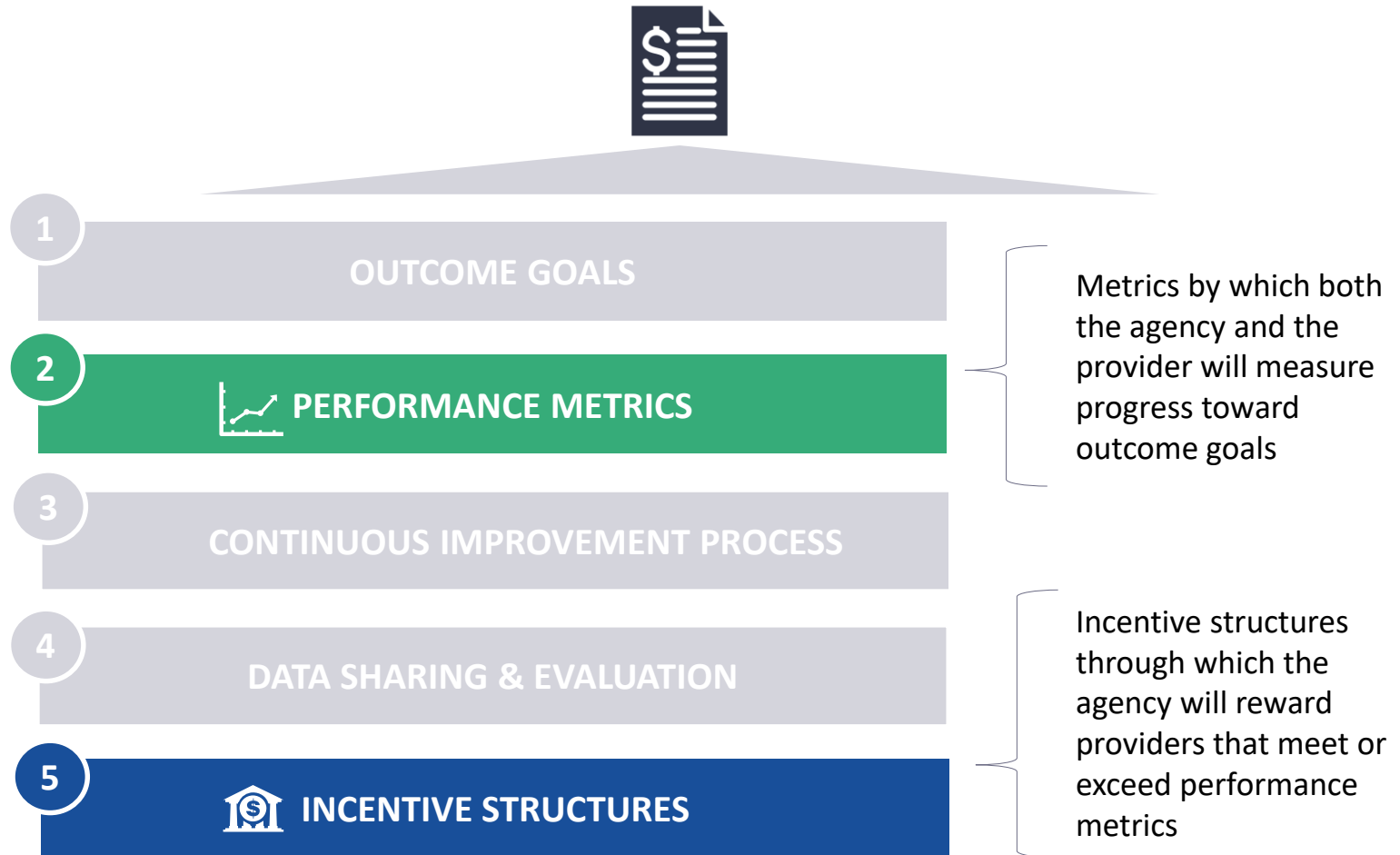
Outcomes contracts articulate five key components that collectively ensure funding and services drive toward improving life outcomes

Components of an Outcomes Contract

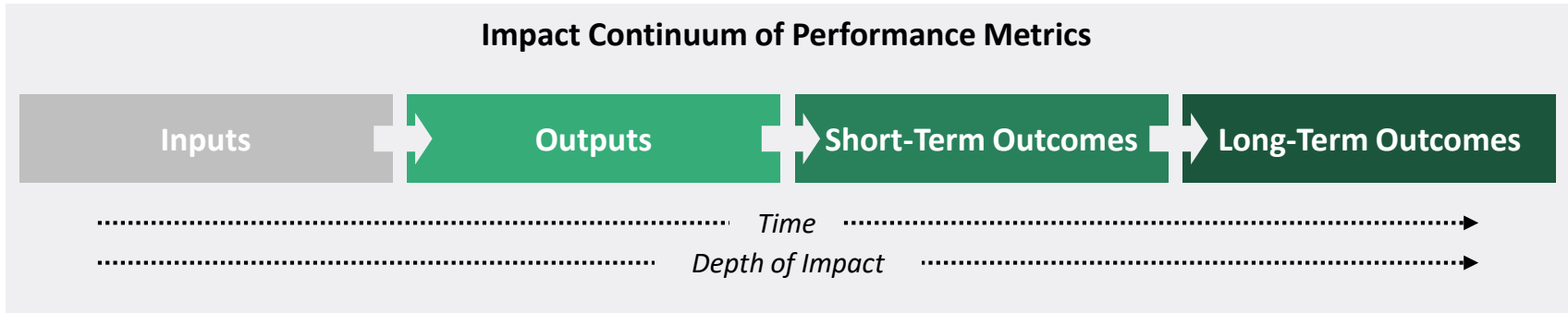


Performance metrics allow agencies to track progress towards outcomes goals and reward providers through incentive structures

Performance Metrics Inform Incentive Structures



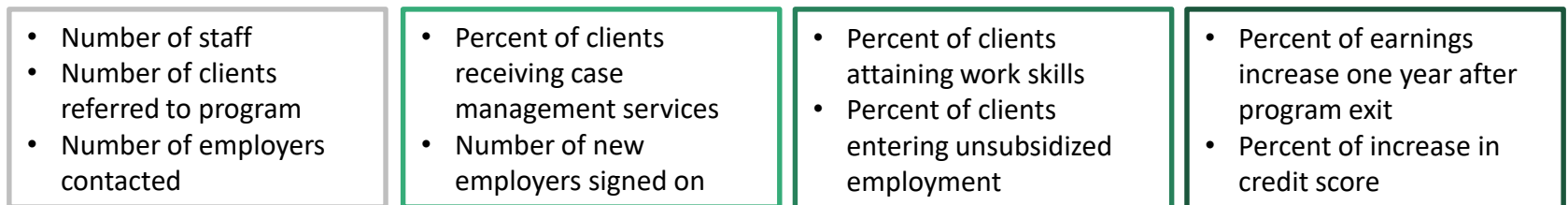
Performance metrics are the immediate and extended results of a program's resources and activities



Sample Components of Logic Model¹ for a Subsidized Employment Program



Sample Metrics for a Subsidized Employment Program



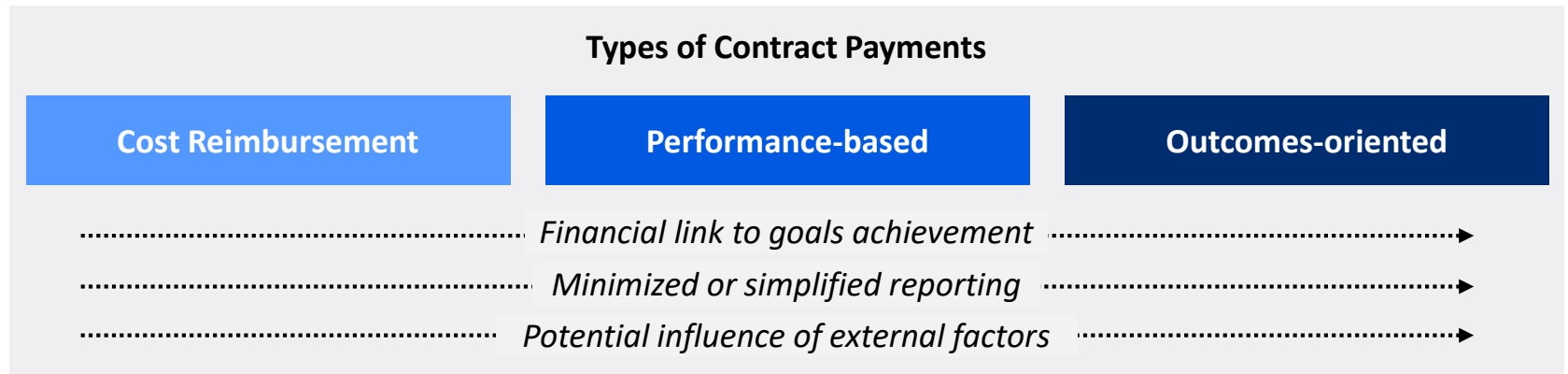
1. A logic model is a framework or visualization of how a program expects to achieve its ultimate social benefit goals, from resources (inputs and activities) to the products generated from those resources (outputs) to the expected impact of those products over time (outcomes).

Agencies can leverage a range of incentives in an outcomes contract, and today we will focusing on those tied to performance metrics

Potential incentives for providers

Contract dollars tied to achieving outcome or output targets	<i>Contingent bonus payments</i>	Payments in excess of base costs after meeting or exceeding outcomes
	<i>Contingent base payments</i>	Payments within base costs are withheld until success is determined
	<i>Contract renewal/expansion</i>	Providers receive additional or larger contracts after successfully meeting targets
Improved measurement and compliance	<i>Outcomes data access</i>	Providers have access to outcomes data to demonstrate a track record of success
	<i>Reduced reporting burden</i>	Reporting streamlined to focus on outputs or outcomes and leverages administrative data
Flexibility in service delivery and targeting	<i>Flexible program delivery</i>	Providers are encouraged to innovate on program delivery to achieve outcomes
	<i>Population focus</i>	Providers are given the option to focus on a specific beneficiary population
Organizational sustainability	<i>Contract size / term</i>	Longer and/or larger contract in exchange for including outcome payments

Tying incentives to outcomes aligns goals, reduces reporting, and offers providers flexibility to innovate for better results



Benefits

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> Provides cost coverage to providers | <ul style="list-style-type: none"> When rigorously selected, outputs can represent key indicators of outcomes | <ul style="list-style-type: none"> Allows providers to focus on cultural responsiveness and improving outcomes |
|---|--|---|

Considerations

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> Requires provider to submit documentation for expenses Incentivizes inputs of service delivery | <ul style="list-style-type: none"> Requires continued evaluation, audits, and stakeholder engagement to validate output choices | <ul style="list-style-type: none"> Involves careful, deliberate evaluation of the provider ecosystem and providers' financial accounting |
|---|--|---|

Contents

Performance Metrics and Incentives Structures (15 min)

Case Studies: (20 min)

-Appropriate metrics and timing for payments: Northern Virginia

-Provider-specific and dynamic targets: King County, WA

Reflection and Discussion (25 min)

Bonus Case Study:

-Incorporating bonus and withheld payments: Santa Clara County, CA

Case studies can demonstrate how to design incentive structures around key performance metrics to accelerate improved outcomes.

Featured Case Studies



Northern Virginia Workforce Board partnered with Third Sector to determine the **optimal performance metrics and timing** for bonus payments along the impact continuum.

King County worked with Third Sector to structure bonuses based on **customized performance targets** that update semi-annually, and included **upfront funding** to boost providers' capacity

Third Sector helped Santa Clara County's Behavioral Health Services Department build an outcomes contract with **contingent bonuses and withheld payments** for the provider

Northern Virginia Workforce Board partnered with Third Sector to determine the optimal metrics and timing for bonus payments

Northern Virginia Workforce Development Board



Northern Virginia Workforce Board partnered with Third Sector to determine the **optimal performance metrics and timing** for bonus payments along the impact continuum.

King County worked with Third Sector to structure bonuses based on **customized performance targets** that update semi-annually, and included **upfront funding** to boost providers' capacity

Third Sector helped Santa Clara County's Behavioral Health Services Department build an outcomes contract with **contingent bonuses and withheld payments** for the provider

Case Study: 2017 Northern Virginia Team Independence Project (NVTI)

PERFORMANCE METRICS

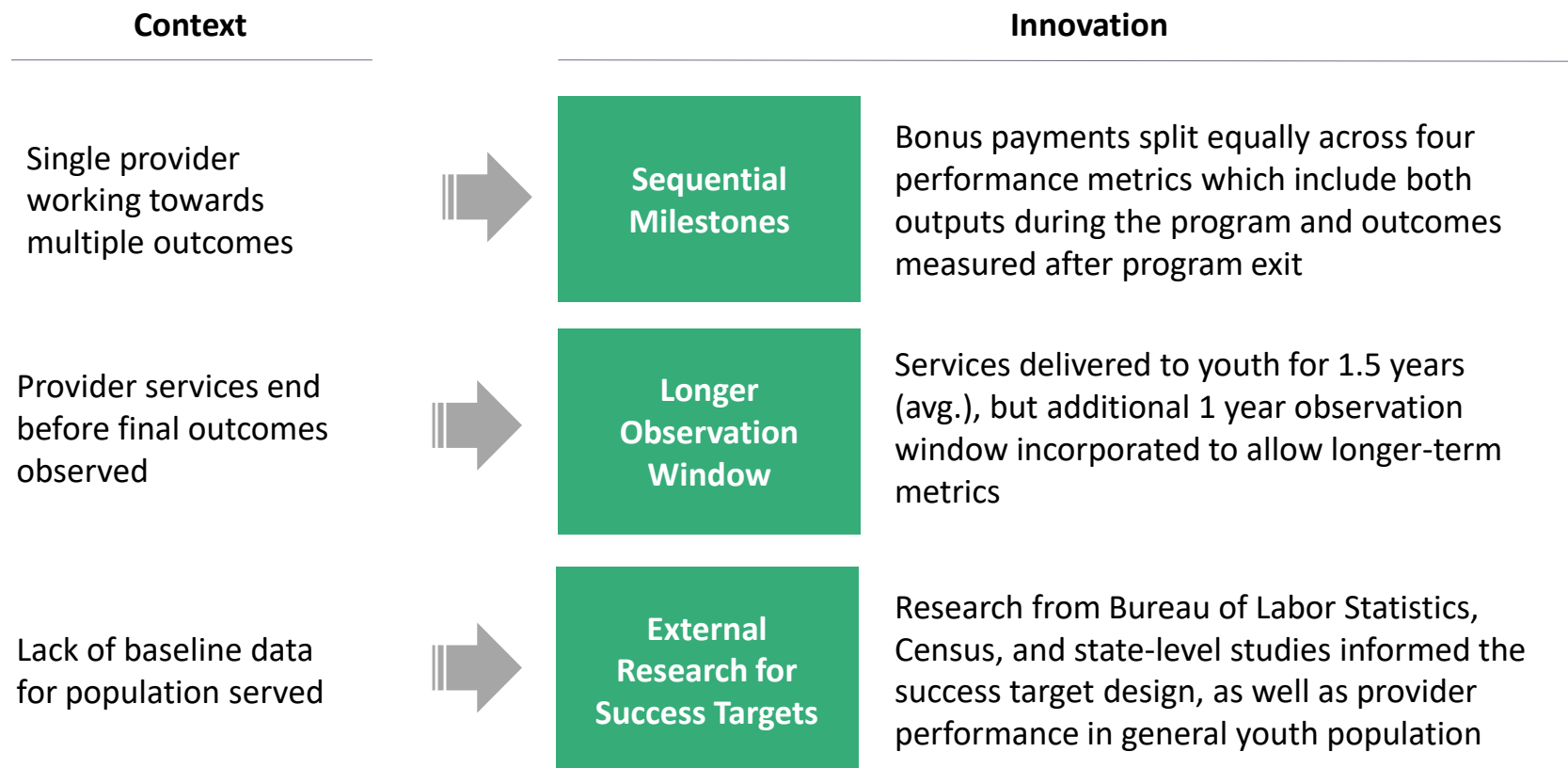
Payment	Contracted outcomes: Skills Gain During Program; Placement in Employment, Training, or Education (six months and one year after exit); Attainment of Degree or Certificate (within one year after exit)
Policy	Other outcomes of interest: Reduction in recidivism rates and time spent incarcerated; Decrease in use of TANF, SNAP, and Medicaid

INCENTIVE STRUCTURES

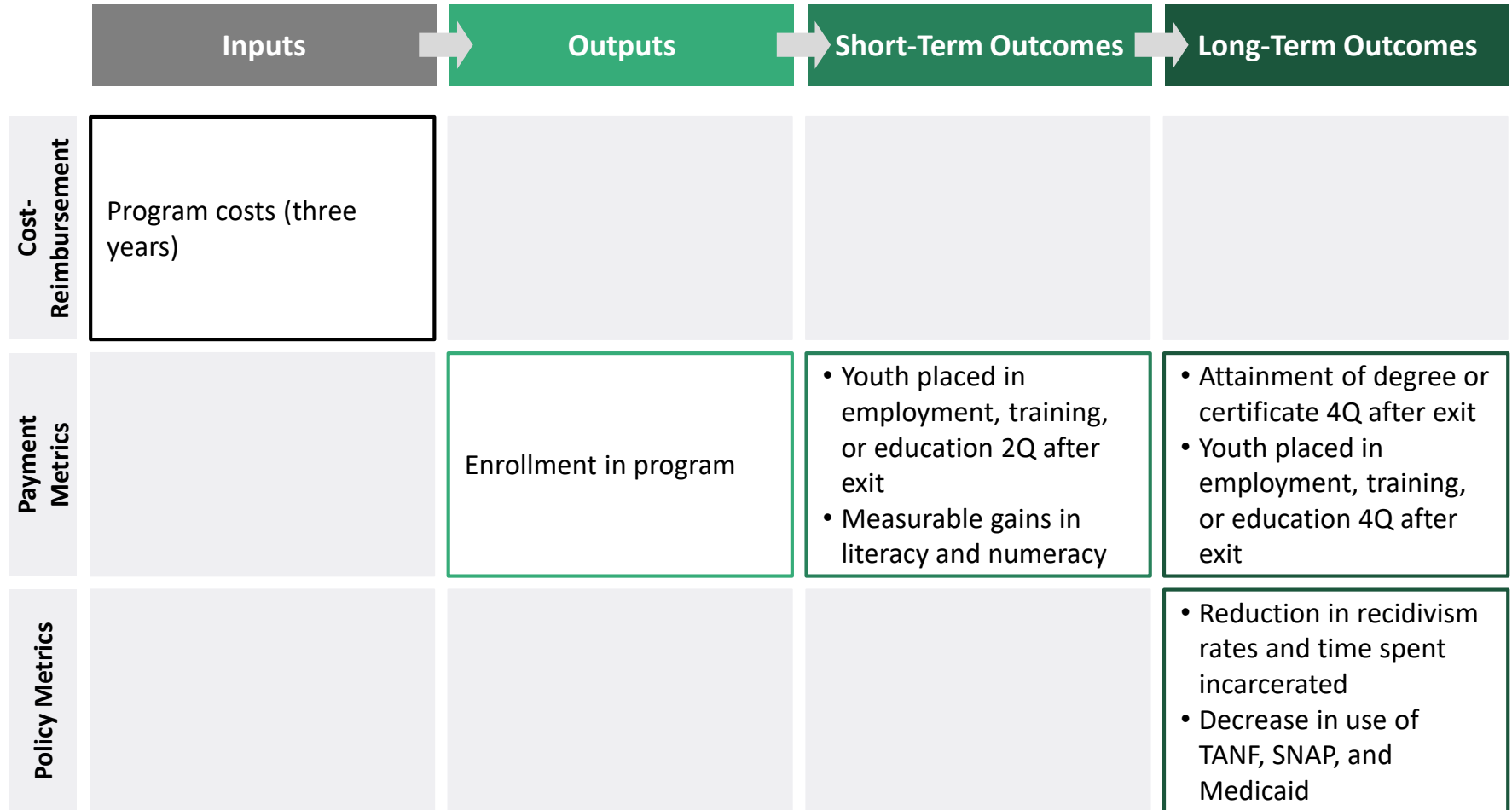
Type	Bonus Payments to one workforce service provider, the Fairfax Department of Family Services (DFS)	
Conditions	Paid out per outcome, per youth to the provider upon meeting NVTI success targets for each outcome achieved by foster care and/or justice-involved youth. Full bonus is made only if success target is met.	
Incentive Amount	Cost of Service	<ul style="list-style-type: none"> Program Cost of Service is \$600K Cost of Service is paid to DFS through regular WIOA cost reimbursement in order to operate program
	Bonus Amount	<ul style="list-style-type: none"> Up to \$150K in bonus payments paid out over 6 years for ~100 youth DFS can earn a bonus payment of \$712 per youth, per outcome achieved (per youth, total possible payment of \$2,848 for achieving all 4 contracted outcomes)
Payment Schedule	Timeline	<ul style="list-style-type: none"> Services delivered to each youth for 1.5 years (avg); 1 year observation post-program Program enrollment is ongoing; Bonus payment funds are set aside during the first 3 years of the program but program itself (with observation period) runs for 6 years
	Bonus Frequency	<ul style="list-style-type: none"> Starting in Year 2, bonus payments made bi-annually if outcomes are met Bonus payments stop 3 years after the last enrollee has begun the program

Northern Virginia used opportunities from new legislation to help enroll and serve at-risk youth

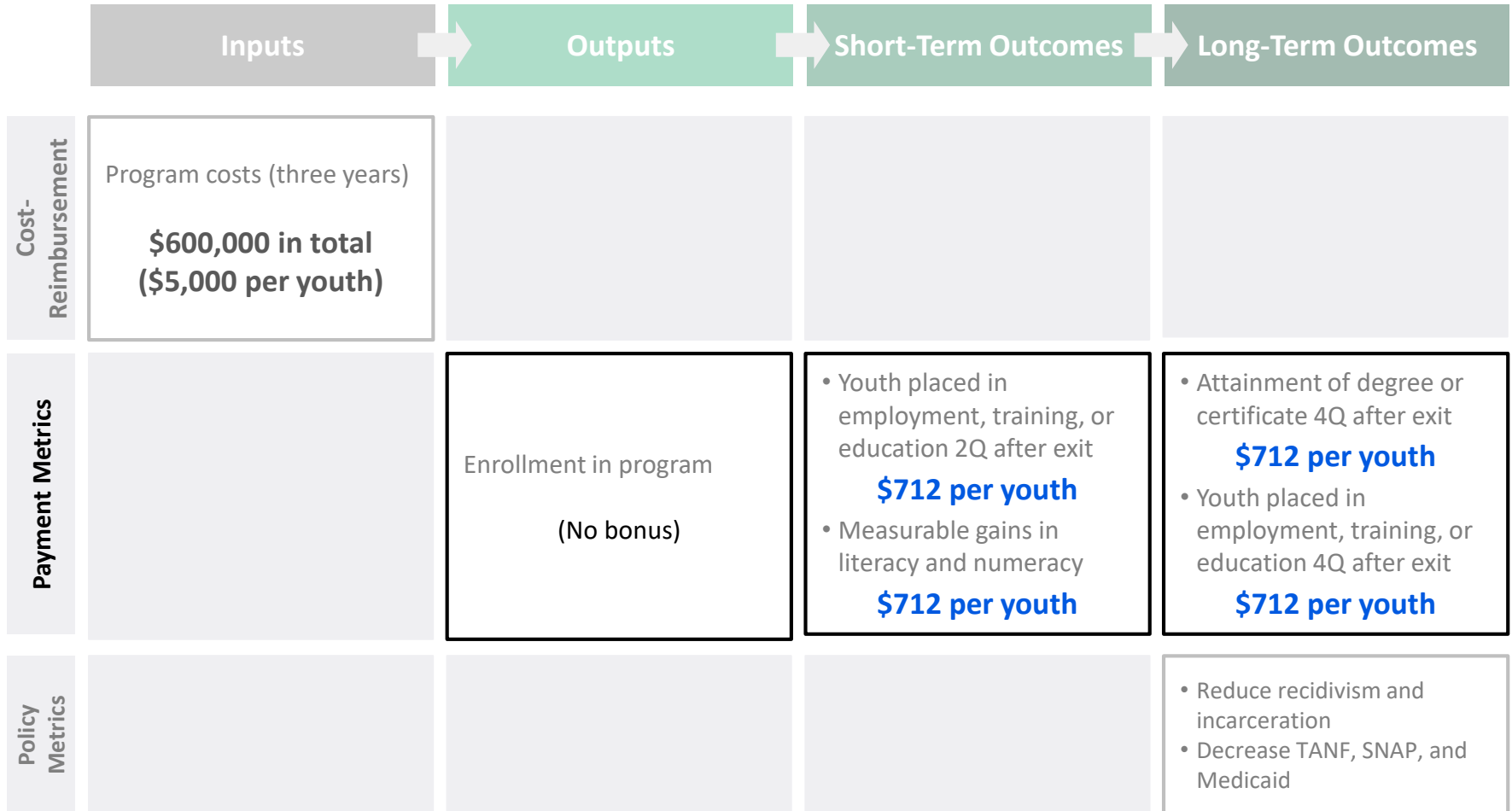
Features of the Performance Metric Design



Northern Virginia used a mix of performance metrics to incentivize enrollment and improved service delivery to program clients



Bonus payments were split equally between each of four metrics in order to balance provider risk and incentivize a progression of better outcomes



King County responded to variation in provider performance with dynamic and provider-specific targets

Case Study: King County Behavioral Health and Recovery Division



Northern Virginia Workforce Board partnered with Third Sector to determine the **optimal performance metrics and timing** for bonus payments to improve education and employment outcomes

King County worked with Third Sector to structure bonuses based on **customized performance targets** that update semi-annually, and included **upfront funding** to boost providers' capacity

Third Sector helped Santa Clara County's Behavioral Health Services Department build an outcomes contract with **contingent bonuses and withheld payments** for the provider

Case Study: King County Outpatient Treatment on Demand Initiative

PERFORMANCE METRICS

Payment	Contracted metrics: Time from request for service to offered intake; Time from request for service to actual intake; Time from intake to routine service
Policy	Hypothesized outcomes of timely access: Reduced use of crisis services and hospital

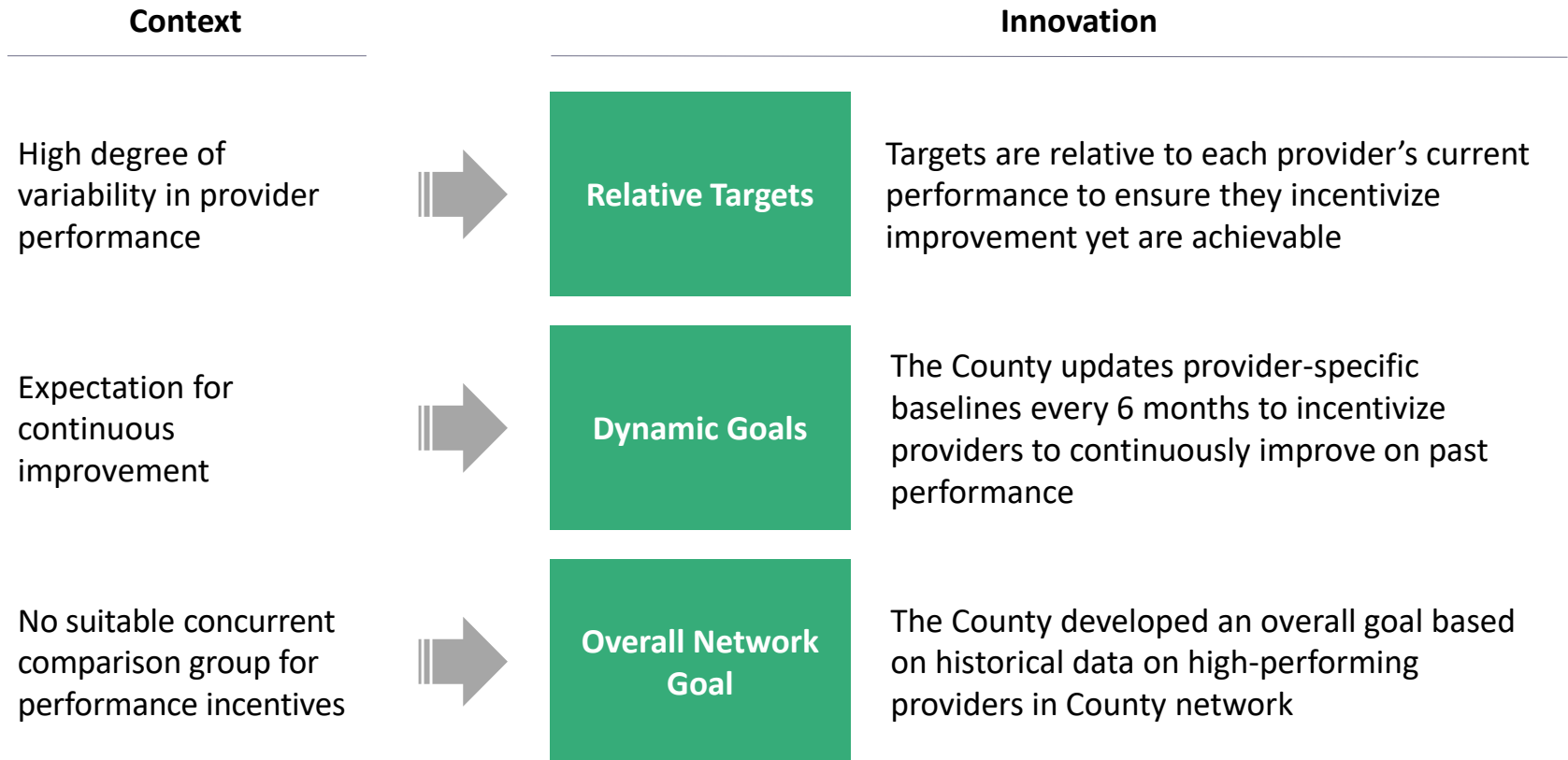
INCENTIVE STRUCTURES

Type	<ul style="list-style-type: none"> Performance-contingent bonus payments to 23 county-funded outpatient behavioral health contractors 	
Conditions	<ul style="list-style-type: none"> A bonus is paid out if the provider meets the growth target for metric (all or nothing for each metric) Growth target is calculated relative to each provider's performance (over the previous 6 months) 	
Incentive Amount	Affected Funding ¹	<ul style="list-style-type: none"> Across All Providers: ~\$115 million in service delivery payments per year
	Bonus Amount ¹	<ul style="list-style-type: none"> 2% total bonus possible of provider case rate (Bonus per metric: Time to Intake: 0.5%; Time to Actual Intake: 0.5%; Time to Routine Service: 1%) Across all providers: Up to \$2.3 million a year (approximately)
Payment Schedule	Timeline	<ul style="list-style-type: none"> Initiative will last 3 years County granted the first performance payment upfront (6 month upfront bonus) so providers could implement the changes needed to meet performance targets
	Bonus Frequency	<ul style="list-style-type: none"> Outcomes measured and bonus payments paid out every 6 months (with 2 month lag between assessment & payout) Providers receive monthly performance data

1) Both *affected funding* and *bonus amount* figures are estimates. Actual figures may vary as they are affected by the number of actual clients enrolled with providers throughout the year.

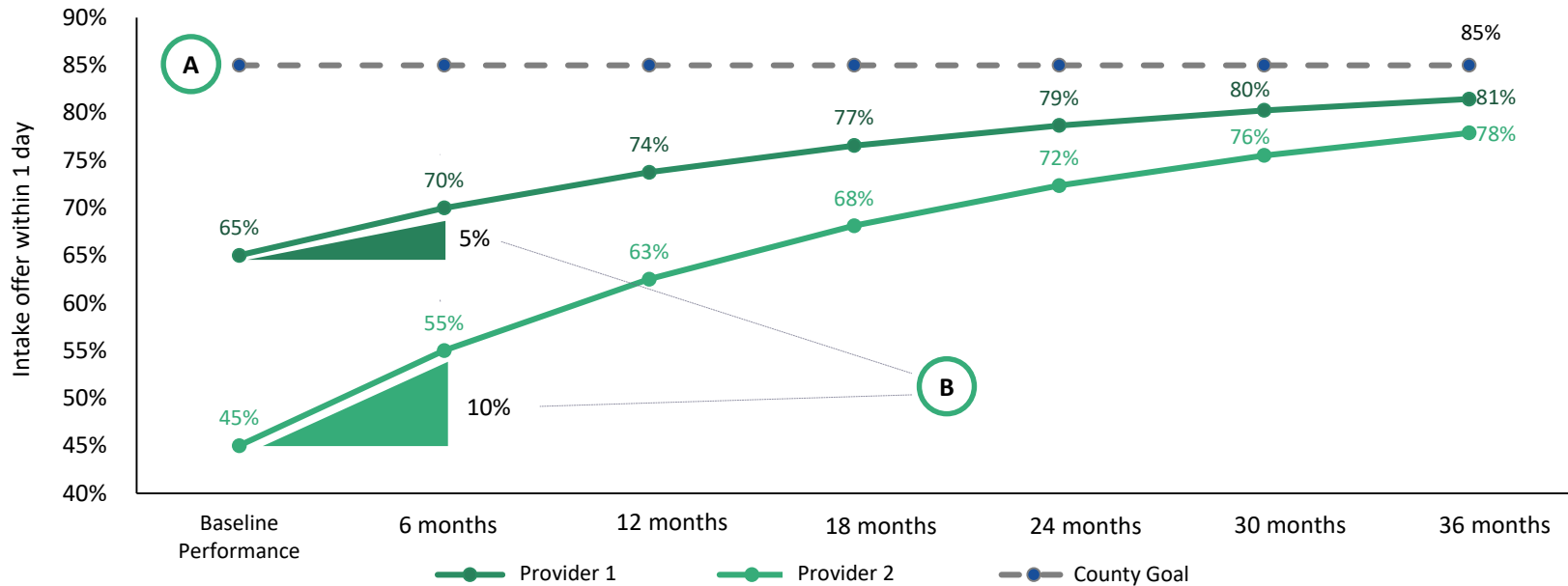
King County leveraged data insights to identify and set an overall county goal while developing provider-specific performance targets

Features of the Performance Metric Design



King County created a dynamic model that adjusts to individual provider baselines and progress to the overall County goal

Sample Provider Performance Modeling



Sample Calculation for Two Providers

Provider	Performance Metric	Baseline Period Performance	County Goal	Growth Goal	Growth Target	Provider-Specific Target
Provider 1	Intake offer within 1 day	65% w/in 1 day	85% w/in 1 day	25%	$(85-65) * .25 = 5\%$	$65\% + 5\% = 70\%$
Provider 2		45% w/in 1 day	85% w/in 1 day		$(85-45) * .25 = 10\%$	$45\% + 10\% = 55\%$

King County determines performance based on three metrics every six months and pays bonuses to providers who meet targets

King County Incentive Structure

Performance Metric <i>Hypothesized correlation with better outcomes</i>▶		
 <i>Potential influence of external factors</i>▶		
	1 day from request for service to offered intake	4 days from request for service to actual intake	7 days from intake to start of routine care
Incentive¹	0.5% of case rate	0.5% of case rate	1% of case rate

Upfront Investment in Provider Capacity	<p>Understanding providers' financial and capacity needs, the County</p> <ol style="list-style-type: none"> 1. Granted the first performance payment upfront and 2. Provided funding for technical assistance from national consultants on implementing 'open access' strategies.
--	---

1. Contracts applied a case rate reimbursement structure meaning that providers were paid a set rate for each client served. In this incentive structure, providers received a bonus based on their total case rate. Therefore, the more clients a provider served, the larger the bonus payment they could earn for reaching each target.

Contents

Performance Metrics and Incentives Structures (15 min)

Case Studies: (20 min)

- Appropriate metrics and timing for payments: Northern Virginia

- Provider-specific and dynamic targets: King County, WA

Reflection and Discussion (25 min)

Bonus Case Study:

- Incorporating bonus and withheld payments: Santa Clara County, CA

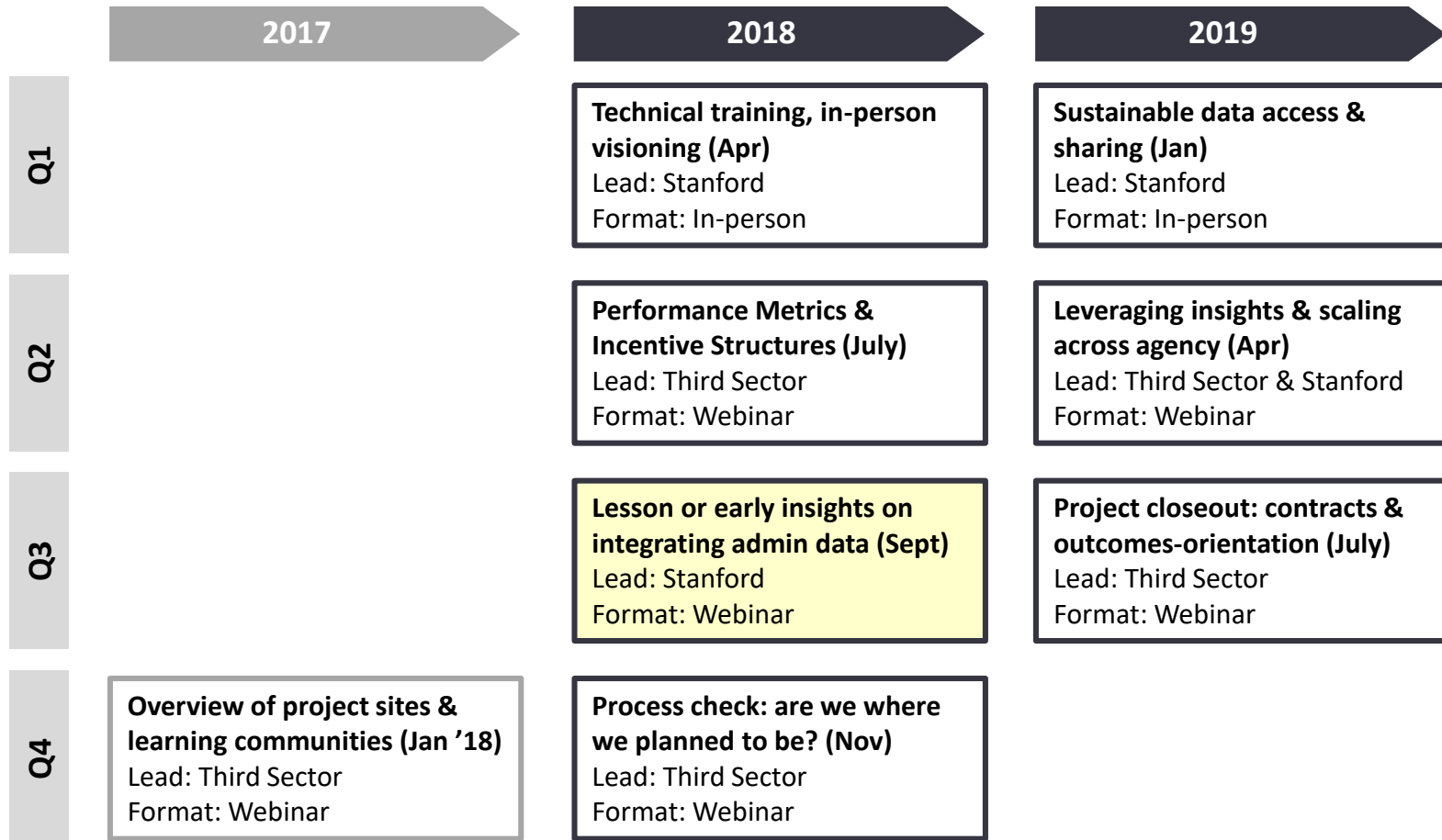
Reflecting on these two case studies and your agency's project

Discussion Questions

- What is **one feature** of King County's or Northern Virginia's **performance metrics** or **incentives structures** that sparked your interest and why?
- What **question or idea** do you have in regards to integrating **performance metrics** and **incentives structures** into contracts?

Our next learning session will focus on...

Quarterly Sessions Timeline



Contents

Performance Metrics and Incentives Structures (15 min)

Case Studies: (20 min)

- Appropriate metrics and timing for payments: Northern Virginia

- Provider-specific and dynamic targets: King County, WA

Reflection and Discussion (25 min)

Bonus Case Study:

- Incorporating bonus and withheld payments: Santa Clara County, CA***

Santa Clara County withholds a portion of payment from the provider and uses targets to determine the amount of contingent or bonus payment

Santa Clara County Behavioral Health Services Department



Northern Virginia Workforce Board partnered with Third Sector to determine the **optimal performance metrics and timing** for bonus payments to improve education and employment outcomes

King County worked with Third Sector to structure bonuses based on **customized performance targets** that update semi-annually, as well as include **upfront funding** to boost providers' capacity

Third Sector helped Santa Clara County's Behavioral Health Services Department build an outcomes contract with **contingent bonuses and withheld payments** for the provider

Case Study: Santa Clara County Mental Health PFS Project

PERFORMANCE METRICS

Payment	Contracted outcome: Reduction in the utilization of high cost critical care services (avoided days in high cost care)
Policy	Other priority outcomes: Improved mental health and wellness

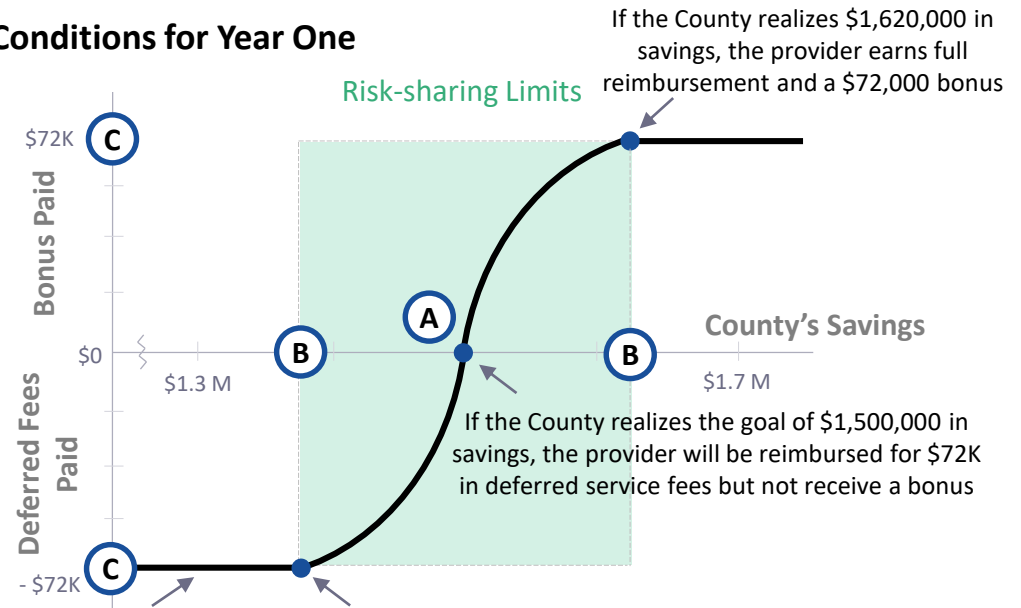
INCENTIVE STRUCTURES

Type	<ul style="list-style-type: none"> Bonus or withheld payments on top of traditional core services contract 	
Conditions	<ul style="list-style-type: none"> Payments are partially withheld at start of year; after year end, providers can earn full reimbursement plus a bonus, based on how far the program exceeded or missed the year's cashable savings target 	
Incentive Amount	Cost of Service	<ul style="list-style-type: none"> \$32M in total commitment, which includes \$10M in reallocated County funds from cost savings generated from reduced service utilization
	Bonus Amount	<ul style="list-style-type: none"> Up to \$1.4M in bonus or withheld payments over 6-years, ranging from (+/-) \$72K – \$321K per year
Payment Schedule	Timeline	<ul style="list-style-type: none"> Traditional government service contract with a 6-year contingent bonus and withholding feature
	Bonus Frequency	<ul style="list-style-type: none"> Bonuses paid annually and capped based on projected enrollment

The gap between the County's savings and the year's target determined the size of the payment made or withheld

Sample Conditions for Year One

A	County Goal	\$1.5 million in savings
B	Cap on Target / Risk	8% of Goal
		± \$120,000 in savings
C	Max Bonus / Withheld Payment	\$72,000



This black line represents how much money the County pays to the provider when the County realizes the respective amount of cashable savings, relative to full reimbursement (i.e., \$0 withheld or bonus payment made).

If the County realizes \$1,380,000 in savings (missing the goal of \$1.5 million), the provider will not be reimbursed for \$72,000 of deferred service fees

- The 6-year project includes \$32M in total provider payments with up to \$1.4M contingent on outcomes.
- The provider gains a bonus or has payments withheld based on how far the provider exceeded or fell below each year's County savings goal.
- Each year the project sets a different target for County savings as well as a different cap based on a percentage of distance from that target. The savings target and cap are expected to increase over the 6 year project which gives the provider time to implement changes.

Disclosure

This presentation contains confidential, proprietary, copyright and/or trade secret information of Third Sector Capital Partners that may not be reproduced, disclosed to anyone, or used for the benefit of anyone other than Third Sector Capital Partners unless expressly authorized in writing by an executive officer of Third Sector Capital Partners.

Third Sector Capital Partners, Inc.
Boston • San Francisco • Washington, D.C.
info@thirdsectorcap.org | www.thirdsectorcap.org