



Does Arizona Works Work? Welfare Reform in Arizona

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EXECUTIVE SUMMARY

Arizona Works is a four-year, pilot welfare reform program currently operating in the eastern part of Maricopa County, and soon starting in Mohave County. It has several important features that distinguish it from the state's regular welfare program EMPOWER Redesign, and make it one of the most innovative welfare reform programs in the nation.

- It is one of two welfare reform in the nation (Wisconsin is the other) where the entire administration of welfare services is privatized.
- Privatization allowed the state to set performance goals, and create incentives for the private contractor to meet those goals. Although common in government contracts for roads or garbage collection, performance-based contracting for a social service such as welfare is relatively rare because it is more challenging.
- Arizona Works has tougher work requirements for welfare recipients. The list activities officially considered as work under EMPOWER includes not only what is commonly thought of as work, but also looking for work; training for work; preparing for work; and working toward a high school diploma or general equivalency degree. The list of activities considered work under Arizona Works is limited to work: either in a full-time, subsidized or trial job.
- Under Arizona Works benefits are flat grants, unaffected by family size or income, while under EMPOWER, payment amounts are adjusted for family size, income and the cost of housing. The use of a flat grant was purposefully designed to resemble a wage.
- The Arizona Works legislation mandates a 10 percent saving in administrative costs. The competitive bidding process for the Arizona Works contract led to additional savings. At a bare minimum the private contractor will operate the program for 22 to 34 percent less than DES would have needed.

This report is an examination of Arizona Works after its first year of operation. It looks at the success of the private contractor for Arizona Works, MAXIMUS Inc., in meeting the performance goals laid down in the contract; and the fate of former state workers who went to work for MAXIMUS.

PERFORMANCE

The procurement board that oversees Arizona Works devised seven performance incentives to ensure that the private contractor meets the goals stated in the Arizona Works legislation. Many of these goals require the contractor to outperform the state's program, EMPOWER by 10 to 30 percent. For the first year, MAXIMUS met four of the seven performance measures:

- MAXIMUS placed 24.5 percent of non-deferred welfare recipients into paying jobs—7 percentage points higher than EMPOWER Redesign.
- For those who found jobs, MAXIMUS succeeded in placing nearly 40 percent in jobs that pay at least \$3.00 over minimum wage—easily exceeding the 10 percent goal in the contract.
- For the first year, nearly two-thirds of the placements found jobs that offered health benefits—exceeding the 25 percent goal.
- For those who found jobs, over 50 percent were still employed after 90 days. Although this was short of the goal of 75 percent, it is not atypical. The state's average quarterly job retention rate for 1999 was 45 percent.
- MAXIMUS did not meet the performance goal for placing the beneficiaries deferred from work requirements it inherited when it began operation; and failed to outperform EMPOWER in reducing the long-term caseload.

Privatization has allowed a private contractor to rapidly create a system that provides seamless case management for welfare clients. Case management prevents clients having to shuffle between the various agencies providing job training, childcare, cash payments and other benefits. It reduces the frustration of clients and makes it easier to assemble a benefit package that is truly needed.

WORKING IN THE PRIVATE SECTOR

A survey of former state employees currently working for MAXIMUS found:

- Salaries of former state employees increased 31.5 percent on average since they began working at MAXIMUS. Furthermore, 37 percent of prior government employees had received at least one promotion as of March 2000.

- Forty-one percent of those surveyed felt more job security with MAXIMUS, but 42 percent felt that they had less. Ten percent felt that they had the same level of security, and 7 percent were undecided.
- Employees are much more satisfied working in the private sector. Though only 43 percent of respondents were “highly satisfied” or “satisfied” while working for the state, 91 percent are “highly satisfied” or “satisfied” at MAXIMUS. No respondents reported any level of job dissatisfaction with MAXIMUS, compared to 45 percent of respondents reporting being dissatisfied while working for the government. When asked which employer better enables them to provide good service to their clients, every single respondent chose MAXIMUS.

Comments like the ones below from those surveyed revealed that the holistic, case management way of providing services—made possible by the flexibility and innovation of a private contractor and the Arizona Works legislation—has created an elan among employees that is strikingly evident:

I wanted to do more for the participants and I felt that MAXIMUS would provide me that opportunity. So far they have exceeded my expectations!

MAXIMUS has been a wonderful experience for me. I have been able to make things happen for people that were never available with DES. All employees with MAXIMUS are rewarded for their hard work. All of us believe in the MAXIMUS concept and we “do the right thing.” Everyday we learn more about how to serve people. The knowledge and family atmosphere at MAXIMUS has allowed me to promote and train my employees and help the customer. We have high values and truly care for the people we serve. It’s not just about “eligibility” - it’s about family development towards self-sufficiency.

THE FUTURE

Unfortunately, Arizona Works is in danger of dying of neglect. The procurement board went a six-month span during the Summer and Fall of 2000 without meeting—while important issues regarding the expansion of Arizona Works into a rural area and the payment of the contractor went unresolved. It took nine months to approve the incentive payments for the first year. In addition to being slow, the incentive structure is arbitrary, occasionally unrealistic and tilted toward being unrewarding for the contractor. Arizona Works has already demonstrated notable results in its first year, and is a potential model for the nation. It deserves a better chance.

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INTRODUCTION

By the time President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in August 1996, welfare reform had already been well underway in Arizona. In 1997, the Arizona legislature took welfare reform a step further by passing groundbreaking legislation privatizing the administration of welfare benefits in selected areas, and employing more stringent work requirements for the receipt of benefits. The new program, Arizona Works, officially began in January 1999 as a two-phase pilot program. The first phase began in a section of the Phoenix metropolitan area; the second will begin in 2001 in Mohave County, a rural, sparsely populated, low-income section of the state.

As the Arizona Works project marked its one-year anniversary, the Goldwater Institute began a project to evaluate its operation thus far. As a pilot program, Arizona Works is under the scrutiny of a procurement board, the Joint Legislative Budget Committee and independent investigators carrying out evaluations mandated by the legislation. The purpose of this study is to provide one place between two covers where policy makers and the public can learn about Arizona Works—what it is and if it works—without having to wade through various technical reports, scrutinize legislation or sit through numerous meetings.

This report offers an original contribution in a survey of former employees of the state welfare agency who went to work for the private contractor. Worries about the fate of displaced government workers are a constant obstacle to privatization. Our research shows that the former government employees now working for the contractor are, on average, making substantially more money, comfortable with their current benefit package, working more hours, and reporting significantly higher levels of job satisfaction.

Arizona Works sets our state apart from other welfare reform efforts being implemented across the country. Arizona is only the second state to privatize the determination of welfare eligibility. This has allowed a private contractor to rapidly create a system that can provide seamless case management for welfare clients. Case management, instead of having clients shuffle between the various agencies providing job training, childcare, cash payments and other benefits, has been offered as the new best thing in welfare reform. It reduces the frustration of clients; makes it easier to assemble the benefit package that is truly needed; and helps to link benefits to work, job training, school attendance and other behavior the state wishes to coerce from clients.

Arizona Works is also a test of the feasibility of performance measures and incentives for social service programs. Although the performance measures developed by the procurement board overseeing the program are flawed, maybe fatally, they offer a ready measure of performance so far. The result is that the

private contractor performs creditably; at least as well, if not better than the government welfare agency—and saves taxpayers money to boot. Certainly there is no evidence so far that the dire predictions made by opponents have been realized.

If the Arizona Works pilot program is found successful, there is the possibility given in statute for Arizona Works to be implemented state-wide. As one of the most far-reaching welfare reform models in the country, there are lessons here for welfare reform across the nation as well.

I. OVERVIEW OF WELFARE REFORM IN ARIZONA

The first steps towards Arizona Works were taken in President Reagan's 1986 State of the Union Address. In it, the President breathed new life into the subject of welfare reform:

In the welfare culture, the breakdown of the family, the most basic support system, has reached crisis proportions—in female and child poverty, child abandonment, horrible crimes and deteriorating schools...I am charging the White House Domestic Council to present me by December 1, 1986, an evaluation of programs and a strategy for immediate action to meet the financial, educational, social, and safety concerns of poor families. I am talking about real and lasting emancipation, because the success of welfare should be judged by how many of its recipients become independent of welfare (Fishman and Weinberg 1992).

The White House Domestic Policy Council passed President Reagan's directive on to a Low-Income Opportunity Working Group. Later that year, the working group's report, *Up from Dependency*, called for a radical change in how welfare policy was developed:

For 50 years, welfare policy in this country has been inspired and implemented from the top down, from federal agencies and Congressional committees in Washington, D.C., to states, communities, and then to individuals. This strategy needs to be turned on its head. The Working Group is proposing that both policy ideas and implementation be allowed to percolate from the bottom up, to the federal government from the individuals, communities, and states that have to live with these policies. The federal government first of all should do nothing to add to the confusion of the current system by introducing more changes or "reforms" until this country better knows what both relieves poverty and reduces dependency. Instead, the federal government should initiate a program of widespread, long-term experiments in welfare policy through state-sponsored and community-based demonstration projects (Fishman and Weinberg 1992).

The report of the working group, formed by the council, led to the creation of an advisory board to coordinate federal public assistance programs across agencies, and, significantly for our purposes, to encourage and review proposals for welfare reform submitted by the states. From the summer of 1987 through 1988, 26 states submitted welfare reform proposals. After 1988 there was a lull in proposals as the

states were busy implementing another top-down welfare reform, the Family Support Act of 1988 (Fishman and Weinberg 1992).

EMPOWER

The mid-1990s brought a revival in states seeking to implement welfare reform. In 1994, the Arizona legislature passed and the governor signed a welfare reform bill, but the federal government resisted granting the necessary waiver from federal welfare rules. The Department of Health and Human Services criticized portions of the plan as being too punitive. Eventually, the state reached a compromise with the federal government and in 1995 began to implement the EMPOWER (Employing and Moving People Off Welfare and Encouraging Responsibility) program.

Prior to 1995, welfare programs in Arizona were simply an extension of the federal Aid to Dependent Families with Children (AFDC) program. EMPOWER contained reforms considered revolutionary. It mandated cash sanctions (cuts in benefit payments) if beneficiaries did not comply with program requirements; and it instituted time limits for adult cash benefits (24 months of eligibility for cash assistance in any 60-month period). EMPOWER also established a family benefit cap and unwed minor parent provisions. While these provisions may seem restrictive, EMPOWER also provided new benefits designed to promote long-term self-sufficiency such as individual development accounts and transitional medical and childcare for up to two years after recipients found employment.

FEDERAL WELFARE REFORM

One year later, after several failed attempts, the federal government passed welfare reform legislation that contained many of the provisions in Arizona's EMPOWER program. The federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) changed the Aid to Families with Dependent Children program (AFDC) to Temporary Assistance for Needy Families (TANF). The shift in ideology, which can be seen in the new program titles, was of great importance. Aid became only temporary assistance. What was once an entitlement became only temporary help conditional upon work requirements.

PRWORA changed "welfare as we know it" in four distinct ways (Rector):

- The mechanisms for funding were dramatically altered. Under the old system, a state received more federal funds when more people were enrolled in the AFDC program. One of the aims of welfare reform was to reverse this financial incentive. The federal government now distributes a fixed dollar grant to each state that will be gradually increased annually. If a state reduces its welfare caseload, its grant will not be cut. In fact, it may keep the surplus money and use it to enhance other efforts to aid the poor. On the other hand, if a state's caseload increases, the state must assume the cost.

- Growth in overall welfare spending—TANF, Food Stamps, Supplemental Security Income (SSI), and other related programs—was also reduced. Combined spending in these areas was projected to grow at an annual rate of approximately 6 percent. PRWORA lowered the growth rate to 4.5 percent.
- Work requirements were implemented. “In 1997, 25 percent of recipient families were required to participate in work activities. By the year 2002, this requirement increases to 50 percent. In addition, all nonexempt adults must participate in work activities within two years of benefit receipt” (Zedlewski 1999).
- Finally, PRWORA created provisions to try and reduce illegitimacy. It provided funding for new abstinence education programs as well as requiring each state to set illegitimacy reduction goals without increasing abortion rates.

EMPOWER REDESIGN

For many states the PRWORA meant a radical change in their welfare systems. In Arizona, however, many of the new federal provisions were already in place. Arizona had already begun to change the philosophy of welfare from cash entitlement to temporary assistance toward self-sufficiency. Thus, the state had to do little to conform to the new law. Still, the state legislature decided to take welfare reform even further.

One of the important changes in PRWORA was the devolution of welfare policy down to the states. PRWORA not only allows states to design their own welfare programs but also distributes money in the form of block grants to the states. With an estimated \$226.7 million expected from the federal government in 1997, Arizona policymakers scrambled to assemble a TANF plan. The result was two rival plans.

One plan, backed by Governor Symington among others, represented a more gradual approach to reform. It planned to privatize some services such as job training and childcare, but keep TANF administration with the state’s Department of Economic Security. This plan built on the foundation of EMPOWER and was therefore dubbed EMPOWER Redesign. The enhanced version took an even more aggressive approach to the concept of “work first.” Previously, education and training were considered to be the first steps taken by a new client. Under EMPOWER Redesign job placement became the first priority.

EMPOWER Redesign was intended to continue operating under the original federal waiver, which provided the additional flexibility needed to carry out the state’s legislative requirements. One provision of the waiver allowed DES to

administer TANF using the more generous Arizona time limit instead of those in the federal legislation. The federal limit restricts all beneficiaries, adults and children, to no more than 60 months of assistance in a lifetime. The Arizona limit restricts adult recipients to no more than 24 months of TANF assistance in any 60-month period but with no lifetime limit. The waiver also allows Arizona to be more generous in providing Transitional Medical Assistance (TMA). In Arizona welfare beneficiaries may receive TMA up to 24 months after they leave welfare for a job. The federal policy only provides for 12 months of TMA.

Meanwhile, Senator Tom Patterson, a longtime advocate of welfare reform, proposed a second plan that incorporated stricter work requirements and called for the privatization of the entire administration of the program. Amidst the discussion surrounding EMPOWER Redesign, Senator Patterson and other legislators worked behind the scenes to gain approval for their proposal. A full-scale privatization of welfare passed in the Senate, but did not make it past a House committee. In the end a compromise was reached to authorize a pilot privatization program: Arizona Works.[†]

The Arizona Works legislation established a four-year trial of the program in the Phoenix metropolitan area and a rural county. If after the four years, the Arizona Works procurement board and an independent evaluator establish that the program has accomplished its goals, the legislature may expand the program statewide.

CONCLUSION

Critics of the welfare reforms of the 1990s focus only on cash welfare, the former AFDC program, and overlook other developments in assistance for low-income individuals. Over the past three decades there has been a shift away from unconditional cash assistance towards in-kind help such as food and medical care, and cash payments conditioned on work. Real benefits for AFDC have been falling since the 1970s, yet increases in Food Stamps and Medicaid have allowed total real benefits for all three programs to mirror income growth (Moffitt 1990).

Similarly in the 1990s, there have been expansions in Medicaid eligibility and subsidies for childcare, and increases in the minimum wage and the Earned Income Tax Credit (EITC). From 1993 to 1999, federal spending for the working poor increased \$25 billion dollars: \$12 billion for the EITC; \$4 billion for childcare; and \$9 billion for Medicaid. In 1999, federal spending on these three programs reached \$65 billion—more than twice what the federal and state governments spent on AFDC at its height (Besharov and Germanis 2000).

A hike in the minimum wage and expansion of the Earned Income Tax Credit (EITC) increased the incentive to work, while expansions in publicly provided

[†] In the interest of full disclosure, Senator Patterson is currently Chairman of the Goldwater Institute.

health and childcare reduced the penalties for leaving welfare. A 16.8 percent increase in the minimum wage from 1989 to 1998, combined with substantial increases in the earned income tax credit have lifted the earnings of a single mother working full time at the minimum wage above poverty level (Blank 2000).

The same is true for Arizona. Although the number of cash assistance cases in the state has decreased 47 percent since 1996, funding for support services such as transportation, childcare and job training have increased dramatically. Moreover, a myriad of new programs have been put into place to improve communication, self-sufficiency and problem-solving skills; mentor young fathers; provide vocational, post-employment and employment training; and fund other social service programs for children.

Given the overall changes in aid for the poor during the 1990s, the howls of protest over the harshness of welfare reform seem exaggerated. Nevertheless, welfare reform legislation during this time represents a significant milestone. Thirty years ago in this country, legal theorists, judges and advocates were toying with the idea of welfare as a right. The reforms of the 1990s were the culmination of a decades-long trend that moved welfare away from being a dole. Now in exchange for help, recipients are expected to contribute to society through work. But welfare reform is far from over. States are continually trying to come up with more efficient and innovative programs, and Arizona Works is one of the newest and most innovative.

II. HOW ARIZONA WORKS WORKS

Under Arizona Works, a private company contracts with the state to provide cash benefits and other welfare related services for needy families. The contractor is responsible for the administration of TANF (direct cash assistance), childcare, JOBS, Food Stamp Employment and Training, the state's General Assistance program, and associated support services. JOBS and the Food Stamp Employment and Training programs are job training programs for beneficiaries of TANF and Food Stamps. General Assistance is a state cash assistance program aimed at the disabled, elderly, and unemployable who do not qualify for SSI or TANF.

The original intent of the legislation was to also privatize the administration of Food Stamps and the Arizona Health Care Cost Containment System (AHCCCS)—Arizona's version of Medicaid. However, the federal government did not grant the necessary waivers. As a result, the state's Department of Economic Security (DES) continues to administer Food Stamps and AHCCCS in the area covered by Arizona Works, and co-locates in the same offices with the private contractor for Arizona Works.

After a competitive bidding process, the Arizona Works procurement board awarded the contract for the pilot program to MAXIMUS, Inc.—a publicly traded company that provides management consulting and operations services to all levels of government in the United States. MAXIMUS began operating Arizona Works in January 1999 in the DES District 1-East, which includes all of Carefree, Cave Creek, Chandler, Fountain Hills, Gilbert, Higley, Mesa, Paradise Valley, Queen Creek, Scottsdale, Tempe, and portions of North Phoenix and Glendale. District 1-E contains a significant portion of the Phoenix metropolitan region, and accounts for 13 percent of the state's welfare households. The second phase of the program will begin in 2001 in Mohave County.

Clearly, privatization is the most notable aspect of Arizona Works. Privatization allows the state to set performance goals, and create incentives for the contractor to meet those goals. Although common in government contracts for roads or garbage collection, performance-based contracting for a social service such as welfare is relatively rare because it is more challenging. Goals are more difficult to agree upon and to measure. Arizona Works puts the state among the innovators in public policy.

The legislation establishing Arizona Works mandated that the contract contain performance-based incentives and penalties to encourage the placement of individuals in paid employment; the placement of individuals in the highest, most appropriate employment placement levels; reductions in the length of stay on assistance; and reductions in the overall caseload. The program focuses on the

achievement of these outcomes without encumbering the contractor with a plethora of rules, regulations, and procedures. Additionally, the contractor for Arizona Works must offer at least a ten per cent savings in administrative cost, not including start-up costs, for the program.

THE PROGRAM

Arizona Works is not merely an experiment in privatization, but also an application of a firmer, more work-oriented philosophy of welfare. Arizona Works has a four-tiered system of employment levels modeled directly after Wisconsin's W-2 welfare reform program. All qualified applicants for TANF cash benefits in the Arizona Works program must be placed in one of the four employment levels in order to receive benefits. (See table 2.1.)

A major difference between Arizona Works and EMPOWER Redesign can be seen in the brevity of the Arizona Works legislation. The architects of Arizona Works placed only the fundamental aspects of the program in the statute in order to give the Arizona Works procurement board and the contractor the opportunity to be creative in meeting the program's goals. In some ways, Arizona Works is less paternalistic than EMPOWER. For instance, Arizona Works has no immunization or school attendance requirements.

The very definitions of work differ between Arizona Works and EMPOWER Redesign. The list of activities officially considered as work under EMPOWER Redesign is taken from federal legislation. It includes not only what is commonly thought of as work, but also looking for work; job readiness and vocational training; and working toward a high school diploma or general equivalency. The list of activities considered work under Arizona Works is provided in state legislation. The list is limited to work: either in a full-time, subsidized or trial job. Instead of work, Arizona Works beneficiaries may receive a community referral for mentoring with a faith-based or other community organization, but receive a smaller cash grant.

Beneficiaries in both programs may be deferred from the work requirement, but the allowable reasons differ between the two programs. Under EMPOWER Redesign, individuals may be temporarily deferred if they are victims of domestic violence, disabled, a caretaker for a disabled family member, a parent or caretaker of a child under the age of one year, or a teen parent whose child is under twelve weeks. The only specific reason given in legislation for deferral under Arizona Works is childbirth: a beneficiary does not have to work during the last two weeks of pregnancy and up to twelve weeks after delivery. Any extension must be accompanied by a written order from a doctor stating that it is medically necessary to refrain from activities.

Table 2.1 Employment Levels for Arizona Works

1. Full-Time Unsubsidized Employment.
2. Subsidized Employment. A subsidy is made to an employer that hires a TANF participant in order to provide work experience. The employee must earn at least minimum wage and will be reviewed for employability every 6 months.
3. Unsubsidized and Unpaid Employment (a trial job). Through relationships established with companies or community based organizations, participants gain work experience and training. Participants may be required to work not more than 30 hours a week in order to be eligible for the maximum monthly grant of \$390.
4. Community Referrals. Participants are allowed to choose from a variety of community and faith-based service providers that are under contract with Arizona Works. These placements will include mentoring and work activities designed to improve employability. Participants may be required to work not more than 25 hours a week in order to be eligible for the maximum monthly grant of \$350.

Source: (A.R.S. 46-349)

This difference between the two programs is not as harsh as it appears on its face. Participants in Arizona Works may be excused for reasons at the discretion of their case manager (A.R.S. 46-350). The result is no great difference in the fraction of cases deferred. As of May 2000, the number of deferrals under Arizona Works is 21 percent of adult participants, compared to 23 percent under EMPOWER Redesign.

Another important difference between the two programs is how benefits are calculated. In the EMPOWER Redesign program, payment amounts are based on 36 percent of the 1992 Federal Poverty level adjusted for family size, income, and shelter cost factor. (See table 2.2.) However, in Arizona Works benefits are flat grants—\$390 or \$350, depending on whether the participant is employed or has received a community deferral. Arizona Works payments are unaffected by family size or income. The use of a flat grant was one of most controversial parts of Arizona Works. Its rationale is that a flat grant system more closely resembles a wage because it does not increase with family size.

Table 2.2. EMPOWER Redesign TANF Benefit Amounts

A-1 level for units with housing expenses		A-2 level for units with no housing expenses	
Family of 3	\$347	Family of 3	\$218
Family of 4	\$418	Family of 4	\$263
Family of 5	\$489	Family of 5	\$308
Family of 6	\$560	Family of 6	\$379

According to the most recent data available, around 50 percent of all TANF Arizona Works cases are “child-only,” and hence paid the same amount as child-only cases under EMPOWER Redesign.* Of the remaining cases, 84.5 percent received a payment of \$390 per month, and the remaining 15.4 received \$350 per month—resulting in an average payment of \$384. Comparing this with table 2.2, it is evident that the only families at risk of a large cut in benefits under Arizona Works are large families with housing expenses. When the private contractor took jurisdiction over the Arizona Works pilot region DES estimated that there were only about 400 cases out of a total of 3,329, or 12 percent, that would have received a reduction in cash benefits. This group was given a high priority and helped with extra supportive services.*

A fundamental component of welfare reform, and another area where the two programs differ, is the institution of time limits. As mentioned earlier, under EMPOWER Redesign beneficiaries are limited to no more than 24 months of TANF assistance in any 60-month period, but face no lifetime limit. Furthermore, upon reaching the time limit benefits are only reduced by the adult portion of the grant. On the other hand, Arizona Works participants have a 24-month participation limit in any given work level, and a 60-month lifetime benefit limit. Benefits are completely terminated for the entire family when the limit is reached.

Appendix A and Appendix B give a full listing of the differences and similarities between Arizona Works and EMPOWER Redesign.

IMPLEMENTATION

Responsibility for the implementation of the Arizona Works program is vested in the Arizona Works procurement board appointed by the Governor. The board consists of the director of DES, two members from the private sector who have procurement experience, two representatives of major employers in the state, two representatives from community based organizations, and two representatives from small businesses. The primary duties of the board are to draft, award, and

* The number of cash assistance caseload also includes child-only cases. These cases are children whose parents are ineligible for welfare, who reside with a non-parent relative or guardian, or who are in foster care.

* A recent report found that the average family on Arizona Works receives on average over \$40 per month more than the average family on EMPOWER (Kornfeld 2000).

monitor the implementation of the Arizona Works contract. These duties also include serving as a mediator for any disputes between the vendor and state agencies.

A program as novel as Arizona Works is not without its share of controversy. The public employees union was worried about privatization, while welfare advocates claimed that the tougher work requirements were too draconian and the benefit payments too stingy. Although many concerns were beyond the power of the board to address, the various interest and advocacy groups actively participated at procurement board meetings to voice their concerns and help shape the implementation of Arizona Works.

The board issued the Request for Proposals in August 1998. One of its more notable features was the amount of flexibility and freedom provided to prospective vendors. It stated the required tasks broadly, and left it up to the prospective vendors to describe how they planned to meet them. The section dealing with the overall system for providing services, for example, began with a summary describing how, under Arizona Works, employment and job placement must be integrated with the delivery of other welfare services. Vendors were then left to describe their plan for meeting this goal. The RFP did require that their plans provide detail regarding a variety of different issues, such as the number of office locations, client-to-staff ratio and how transportation would be secured for clients. Thus prospective vendors were able to compete for the contract on their ability to develop innovative procedures and not just on cutting costs.

Only two proposals were submitted by the deadline of October 23, 1998. The bidders, MAXIMUS and Electronic Data Services (in conjunction with Employment Solutions, Inc), also had contracts with Wisconsin's private welfare program. Lockheed Martin had expressed interest in the project, but decided not to bid.

The selection process included two-and-a-half hour presentations before the board in executive session during which vendors explained why their approach would make Arizona Works successful, as well as lessons they had learned in Wisconsin. The presentations culminated in site visits conducted by staff members of Fox Systems, the private firm giving staff support to the board, and DES. After evaluations were discussed in executive session, the board selected MAXIMUS in November 1998.

FUNDING

Funding for Arizona Works comes from the federal TANF block grant appropriated through the Arizona legislature. Money for the operation of Arizona Works flows through three different streams: client services, administration and performance incentives.

Client Services

The first stream of money is for client services or actual program expenses. The amount of money budgeted for this category is based on projected caseloads in the pilot areas. The budget for this category is set only for the first two years of the program, reflecting the state's budget cycle. The budget is broken up by program or fund source, for example, JOBS, TANF, Wheels to Work, or Transitional Child Care.

Within the client service budget there are two types of funds. The first type encompasses the services that DES directly pays or contracts for, such as cash payments to clients. TANF checks are cut and mailed directly from DES to qualifying Arizona Works participants. For other services, such as Work Related Transportation and Job Search Stipends, MAXIMUS negotiates and signs contracts with other agencies or community organizations and then bills DES.

The state reimburses MAXIMUS bimonthly for actual client service expenditures. MAXIMUS may request the transfer of money between types of client service funds, provided that there are no state or federal restrictions that prevent it. Client service funds cannot be moved to the administration budget.

Administration

Part of the proposals submitted by prospective contractors was a bid for savings from a baseline budget for administrative expenses developed by the Joint Legislative Budget Committee (JLBC). The bid by the winning vendor, was used to create an administrative budget covering the entire four years of the urban pilot. DES reimburses MAXIMUS for administration costs monthly, based upon actual invoices submitted. The budget, however, does have a reimbursement ceiling in place, so if administrative expenses exceed the budgeted amount MAXIMUS must absorb the extra cost.

JLBC's baseline budget estimate was controversial even before it was released. There was disagreement over how much money DES should retain for central or indirect administrative costs. These were the costs for functions that DES believed it would continue performing, such as rent for buildings, postage, computer system use and service, appeals, special investigations and program evaluations. Some board members argued that the vendor should be awarded some of this money so that it might have more flexibility in acquiring facilities and other services. This controversy was exacerbated by the fact that the legislature made it clear that there would be no transition funds available. Thus, without this money, MAXIMUS had little money available for office space acquisition or redesign. The chairman of the procurement board, Alfredo Gutierrez, commented in an interview with one of the authors that the enabling legislation did not give the vendor the flexibility or resources it truly needs to show what the private sector can really do—

in contrast to what he witnessed when visiting some of the Wisconsin Works offices operated by MAXIMUS and Electronic Data Services (Gutierrez 2000).

JLBC based its estimates for the baseline administrative costs on the fraction of caseload in the pilot area for each respective service (TANF, General Assistance, etc). The cost of central or indirect administration were based on DES recommendations and then approved by the JLBC. The final estimate for the total administrative cost for the pilot area was determined to be \$13,390,000 per year. Of this, 10 percent was deducted as savings, as mandated by the Arizona Works legislation. The procurement board decided to deduct another 10 percent to use as a source of incentive payments. Finally, DES retained additional funds for the administration of Food Stamps and AHCCCS eligibility after the waivers were denied. Vendors then bid on how far below 80 percent of the baseline budget they would need to administer the program.

MAXIMUS' bid, for the urban pilot area only, was 78 percent of the original baseline amount for administrative costs for the first year; 76 percent for the second year; 72 percent for the third year; and 66 percent for the fourth year. Thus, at a bare minimum MAXIMUS will administer the program at a cost 22 to 34 percent less than DES needed.

Performance Incentives

The third and final stream of money that flows into Arizona Works is for performance incentives for the contractor. The Arizona Works legislation stated that the contract should contain incentives as well as penalties to encourage achievement of the following goals:

- *Placement of participants into paid employment;*
- *Placement of individuals in the highest, most appropriate employment placement level;*
- *Reduction in length of stay on assistance;*
- *Paid employment continuing after 90 days.*

Table 2.3, from the RFP, explains the link between the budget for administration and incentives. As the table shows, the maximum amount of administrative incentives each year equals 90 percent of the current administrative budget minus the contractor's bid, except for the first year when the automatic 10 percent savings is not yet in effect. Consequently, the maximum amount of incentives possible for the first year equals 22 percent of the current administrative costs; 14 percent for the second year; 18 percent for the third year; and 24 percent for the fourth year. All incentive payments are made quarterly within 30 days of the procurement board's approval.

Table 2.3. Arizona Works Payment Structure

<i>Total Baseline Administrative Payment Amount (BAPA)</i>	<i>Maximum Administrative Payment Allowed Arizona Works Without Achieving Incentive Payments</i>	<i>Maximum Administrative Payment Available to Arizona Works Including Incentive Payments</i>	<i>Additional Incentive Payment May Be Achieved By Arizona Works For Exceeding Performance Measures</i>
100% of the current administrative costs.	Year One = 90% of the BAPA. Subsequent Years = 80% of the BAPA.	Year One = 100% of the BAPA. Subsequent Years = 90% of the BAPA.	Up to 25% of the Benefit Dollar Amount Savings confirmed by JLBC.
<u>Source</u> – JLBC determination of current administrative costs in Arizona Works designated program regions.	<u>Source</u> – After the first year, an administrative savings of 10% is required by law. Bidders will submit their offer prices for administrative services as part of the competitive bid process.	<u>Source</u> – The law allows the contractor to receive, after year one, up to 90% of the BAPA for meeting 100% specific performance goals.	<u>Source</u> – The law permits the procurement board to authorize distribution of additional contractor incentives based upon benefit savings due to caseload reductions.

In addition to incentives paid from administrative monies, the legislation provided for the contractor to be able to earn a “performance incentive of not more than twenty-five per cent of the caseload reduction savings, if any, realized by the Arizona Works agency, as determined by the joint legislative budget committee [sic].” The benefit savings money can be earned by meeting the performance criteria, but whether the money is available depends on whether or not any cash benefit savings attributable to caseload reduction were realized. For the first calendar year, JLBC determined that the Arizona Works program did not generate any caseload reduction savings.

JLBC based its finding on a combination of the following methods of measuring caseload reduction. Although some methods are more likely to find a caseload reduction than others, all three resulted in a finding of no reduction in the number of welfare cases during the first calendar year.

- *Method 1 - Measure Caseloads Against the Fixed April 1, 1999 Baseline.* The calculation using this method resulted in an average increase during calendar year (CY) 1999 of 52 cases. This was based on a beginning caseload on April 1, 1999 of 1,844 and an average end-of-month caseload of 1,896 cases. This method was weighted at 25 percent.

- *Method 2 - Measure Caseloads Against Moving Baseline.* This method is similar to the first, however going forward the baseline amount or benchmark will be reset each year to reflect the prior year's average caseload. Because this was the first year of the program, the calculation is identical to the first method, which again results in no caseload reduction savings. This method was weighted at 25 percent.
- *Method 3 - Adjust Targets for Maricopa Countywide Performance.* The intention of this final method is to compare the performance of Arizona Works to EMPOWER Redesign in the balance of Maricopa County. The two Native American communities operating their own TANF program, as well as all child-only cases, were excluded. The caseload in EMPOWER Redesign for the remainder of Maricopa County on April 1, 1999 was 4,944. The average end-of-month caseload for CY 1999 was 4,906, which results in an average *decrease* for EMPOWER Redesign of 38 cases or 0.77 percent. This is compared to the *increase* of 0.28 percent for Arizona Works. This method was weighted at 50 percent.

This payment structure made Arizona the first state to use TANF benefit dollars for direct incentives—a point of significant controversy. (Contractors in Wisconsin are paid on a capitated basis, so incentive payments and profit are hidden in the per capita payment.) Advocates and policymakers both in and out of Arizona were extremely concerned over the precedent that this might set in welfare policymaking. Advocates see this as TANF cash being taken from participants and given to a private company for profit, even though this is clearly not the case. The money for incentives comes chiefly from what would have been used for administrative expenses were the program operated by the public sector. There was also discussion over how possible concerns at the federal level regarding this payment structure would affect the outcome of the waiver application. Chairman Gutierrez believes that this was the main reason for the decline of the waiver to allow Arizona Works to apply to Food Stamps and Medicaid as well (Gutierrez 2000).

THE PERFORMANCE INCENTIVES

The procurement board decided specific incentives primarily in executive session. Measuring caseload reduction was the most troublesome issue. Some board members wanted simplicity, and felt that demonstrating reduced caseload numbers and increased job placement were sufficient. The Children's Action Alliance (CAA), on the other hand, felt that successful welfare reform should be measured, not by reductions in welfare caseloads, but rather by family and child well-being. They felt indicators such as above-poverty wages, benefits, and job retention better reflect these goals. The CAA offered specific incentive recommendations in a memo to the procurement board.

Much of the debate over incentives was carried over from the legislature. Because of their continuous presence and active involvement at every meeting, the welfare advocates had a significant impact on the structure of the incentives. Advocates wanted incentives not to concentrate solely on caseload reductions, but also on training and long-term job retention with good pay and benefits. Notably absent were any supporters of welfare reform ready to articulate the other side of the debate, while the skeptics of Arizona Works were always ready with arguments and figures. Furthermore, because the contract had not yet been awarded, the prospective vendors remained very quiet throughout the process (Gutierrez 2000).

The board devised seven performance incentives:

Incentive I. Placement of Participants into Paid Employment. This measure compares the contractor's ability to place clients into jobs with that of the EMPOWER Redesign program in the balance of Maricopa County. The contractor must achieve a 30 percent higher rate of placement in order to earn 30 percent of the maximum allowable administrative payment incentive (MAAPI). For each additional 10 percent above EMPOWER Redesign, the contractor may earn 1 percent of any benefit savings.

The important difference between this measure and the results frequently discussed in the welfare reform literature is the stipulation of "full-time employment." For example, in the 2000 Welfare Reform Annual Report, DES reported that 42 percent of JOBS participants were placed in employment, but this included part-time employment.

Incentive II. Placement of Individuals in the Highest, Most Appropriate Employment Placement Level. Four different incentives are centered on this goal. A cohort group is used for the measurement of each. The identification of the actual members of the cohort groups was not finalized until December 1999, but performance incentives were calculated based on unofficial designations. Forty percent of the administrative incentive payments and 9 percent of the benefit savings may be earned through these incentives.

Incentive IIa. The first incentive requires the contractor to achieve a 50 percent placement rate from a deferred cohort group made up of the 682 participants in District 1-E who were deferred under EMPOWER Redesign or exempt under JOBS on March 31, 1999—before Arizona Works began operation. The incentive requires that at least 50 percent of this cohort be moved off of deferred status and into one of the four Arizona Works classification levels. Attainment of this goal

garners 15 percent of the MAAPI, and for every extra 10 percent achieved, 1 percent of the benefit savings may be earned.

Incentive Iib. The second incentive is to achieve at least a 10 percent higher rate of placement for the JOBS population into permanent employment than EMPOWER Redesign in the balance of Maricopa County. The JOBS population for this measure is limited to a cohort of 1,225 EMPOWER Redesign participants enrolled in the JOBS program in DES District 1-E on March 31, 1999. Attainment of this goal earns 5 percent of the total available incentive and 1 percent of the benefit savings, but if this goal is not met, the contractor automatically becomes ineligible for the following two.

Incentive Iic. This incentive requires that at least 10 percent of placements from the cohort in measure Iib earn at least \$3.00 over minimum wage, or \$8.15 per hour. Attainment of this goal earns 15 percent of the total available incentive.

Incentive Iid. This incentive requires that at least 25 percent of placements from the measure Iib cohort receive health benefits. It is important to note that this reflects how many participants were placed in jobs that *offered* health benefits, but does not track how many actually enroll for the benefits. Attainment of this goal earns 5 percent of the total available incentive.

Incentive III. Reduction in Length of Stay on Assistance. The goal of this incentive is to reduce the long-term TANF population by a rate 30 percent higher than EMPOWER Redesign in the balance of Maricopa County. The long-term TANF population is defined in the contract as participants who have received AFDC/TANF for at least 36 of the past 60 months. This caseload reduction rate is calculated by subtracting the number of cases open for 36 of the past 60 months at the end of the measurement period from the number open at the beginning and then dividing by the beginning number. This incentive is worth 20 percent of the total available administrative incentive.

The Children's Action Alliance's recommendations for incentive weights suggested that the incentive for reducing length of time on assistance should be minimal. Their claim was that the vendor already had a strong incentive to reduce caseloads overall, and policies such as sanctions and time limits were already penalizing long-term recipients. However, it could be argued that this incentive should help motivate the vendor to target assistance to this cohort in effort to have them gain self-sufficiency before they reach their time limits.

Incentive IV. Paid Employment Continuing after 90 Days. In order to earn the final 10 percent of the total administrative incentives, the contractor must achieve a 75 percent successful retention rate 90 days after job placement. For each additional 5 percent increase, the contractor can earn 1 percent of the benefit savings. This incentive was not applicable during the first quarter.

Reductions in Administrative Payments

In addition to payment for good performance, the statute also provided that the contract should contain penalties for bad performance. As a result, the contract states that the contractor can be penalized with reductions in administrative payments in the following three cases:

- Failure to reduce the caseload = 2 percent reduction of the Allowable Administrative Payment.
- Failure to move families into employment = 2 percent reduction of the Allowable Administrative Payment.
- Failure to meet federal work participation requirements = 1 percent reduction of the Allowable Administrative Payment.

Table 2.4 Total Incentive Payments Earned for First Year

Incentive I	\$732,219.45
Incentive Iia	0.00
Incentive Iib	122,036.58
Incentive Iic	366,109.73
Incentive Iid	122,036.58
Incentive III	0.00
Incentive IV	0.00
Total Earned	\$1,342,402.34

Table 2.4 shows the total incentive payments earned by MAXIMUS for the first year of operation—April 1999 through March 2000. For the year MAXIMUS met four of the seven performance measures. Under the Arizona Works payment system, meeting the performance goals is the only way for the contractor to earn a profit, therefore the structure of the incentives is crucial for the success of the program. Unfortunately, the nature and administration of the incentive payments so far may make supporters of Arizona Works uneasy. The measures are arbitrary (why 30 percent more than DES instead of 27.5?); some are unreasonably stratospheric (75 percent 90-day job retention rate). Their all-or-nothing nature creates no incentive at the margin. Furthermore, the state has been dilatory in paying them. Although the first year of operation ended in March 2000, approval of

the final reconciliation of payments did not take place until the following December—a delay of nine months.

The small profit margin has led many to speculate that MAXIMUS has been willing to sacrifice now in hopes of earning the right to administer the program throughout the whole state. When asked if MAXIMUS was subsidizing operations at all, Beth Hicks, the Arizona Works Project Manager, simply stated that, “MAXIMUS made a decision to make an initial investment based on their confidence to attain the performance measures. The company is taking a risk because we feel we can win,” (Hicks 2000).

THE TRANSITION

Because the MAXIMUS staff had planned on being completely consumed with the task of providing a seamless transition for Arizona Works, they notified the corporate staff not to expect the winning of any of the performance incentives for the first quarter. What really happened was truly remarkable.

Worries over the method of transferring the existing caseload over to MAXIMUS stemmed from the desire of all involved to mitigate as much as possible any negative impact on participants. Indeed, a conversion of this magnitude heightened the concerns of many stakeholders during this critical period. No one wanted to see families miss payments or slip through bureaucratic cracks.

MAXIMUS began an extensive outreach effort designed to convert as many cases as possible to Arizona Works during the last week of March 1999. The process began with appointment notifications being sent to all high priority cases: child-only cases, cases with earned income and cases with grants in excess of \$390.

Child-only cases included children of parents who lost their TANF eligibility due to fraud or a drug-related felony, or those who were born here in the United States, but whose parents were unqualified aliens. There were over 800 of these cases. Cases with earned income were participants who were working and even though they may not have qualified for a cash grant, their income was low enough that they still qualified for supportive services. There were approximately 230 of these cases. Cases with grants in excess of \$390 were large families that received a decrease in cash benefits as a result of Arizona Works. There were approximately 400 of these cases. These last cases were converted first. Child-only cases were immediately converted because they have no work requirements.

Case managers made at least three attempts to establish contact with participants, either through phone or mail. If after three contact attempts there was still no response, then home visits were attempted. By the end of the conversion period, MAXIMUS workers attempted 216 home visits. Of these, 61 percent or 131 clients were contacted, and 76 percent of these clients agreed to come

to an Arizona Works office. However, only 31 percent of the participants came in for their appointment or orientation. Out of the 39 percent or 85 clients not contacted, 28 percent could not be located due to a move or address error. An additional 39 percent were not home during any of the home visit attempts.

Originally, MAXIMUS proposed that all clients would automatically be assigned to Level 3, which would equal a cash grant of \$390, but the procurement board requested that all clients be assigned to Level 4 with a cash grant of only \$350. Adjustments to level assignments would then be made when clients came into an Arizona Works office and were properly assessed.

On March 31, 1999, 3,329 cases were transferred to MAXIMUS. By the end of April, all cases had been converted to a level four grant in order to continue receiving payment, and many were being provided services. However, cases were closed for participants who had not established any contact with MAXIMUS by June 30. The exact number of closed cases is unknown due to difficulties in data collection.

Meanwhile, new employees were still being hired and trained, boxes unpacked, and offices set up. Yet in spite of all that was going on, the Arizona Works staff exceeded even their own expectations. Not only did the conversion process commence smoothly from the perspective of all parties, MAXIMUS was even able to achieve four out of six performance incentives. Chairman Gutierrez characterized the conversion as “stunning” and was impressed with the level of professional cooperation on the part of both DES and MAXIMUS (Gutierrez 2000).

III. DOES ARIZONA WORKS WORK?

The results of welfare reform in Arizona are shown clearly in the table below. Over the past decade, although there had been a 30.7 percent increase in Arizona's population, the number of cash assistance cases decreased by 31.3 percent. Compared to 1996, total TANF cash benefits in Arizona have decreased by an average of \$9,703,650 a *month*. Furthermore, the new emphasis on work can be seen in the dramatic expansion of the JOBS program. DES reported that in FY99, the JOBS program served 25,209 participants, representing a 619 percent increase from 1991.

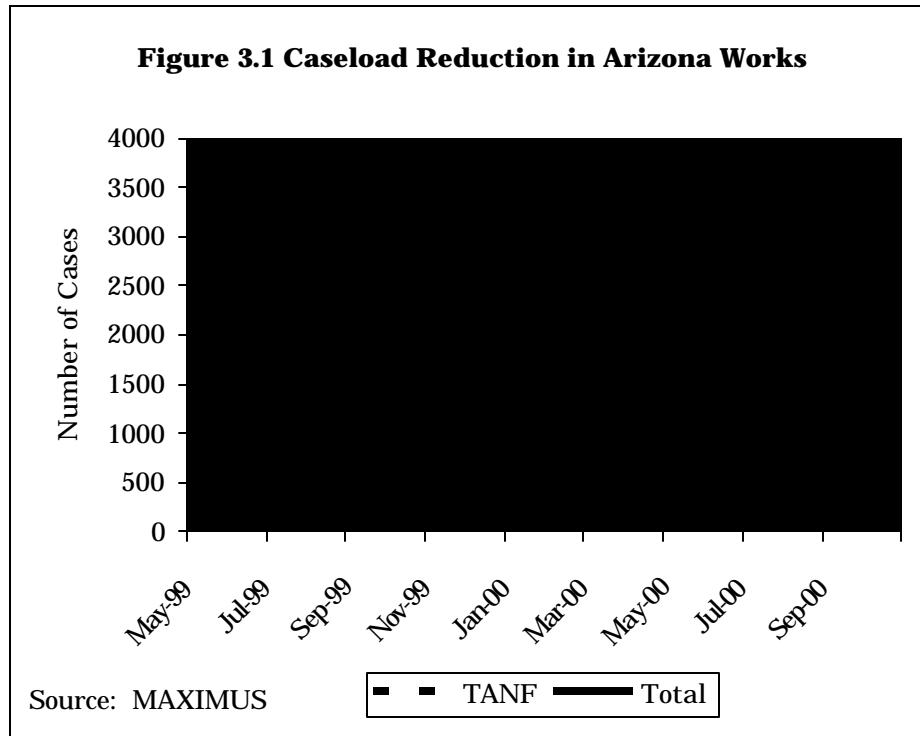
Of course welfare reform cannot take all the credit. The same period has seen an expansion of aid to the working poor that increased the attractiveness of work, and a providential alignment of the economic stars creating record growth and work for everyone. The recent nature of the reforms, and the fact that they assumed a variety of flavors, makes it difficult to know how much of the decline in caseloads can be attributed to welfare reform. One summary of the studies so far credits the economy with 15 to 25 percent of the reduction; additional aid to the working poor, 30 to 45 percent; increases in the minimum wage, 0 to 5 percent; and welfare reform, 30 to 45 percent (Besharov and Germanis 2000).

The performance incentives created by the procurement board provide a ready-made measure, as intended, of the performance of Arizona Works and the contractor MAXIMUS, including direct comparisons with DES. This is supplemented with customer satisfaction surveys also required by the board. The private contractor's performance is creditable. The greater flexibility of a private company has allowed the rapid creation of a holistic method for providing services. MAXIMUS, the private contractor, has been able to place over 30 percent more clients into full-time employment than DES and has well surpassed the goals of placements with high wages and health benefits.

Table 3.1. Population and Caseload Changes

	1991	1999	% Change
Total Arizona Population	3,767,000	4,924,350	30.7
Unemployment Rate	5.3	4.4	-17.0
Average Number of Cash Assistance Cases	51,997	35,730	-31.3
Average Monthly Payment Per Case	\$257.96	\$282.66	9.6
JOBS Participation	3,507	25,209	619
JOBS Participants Employed	606	9,604	1485

Source: Arizona Department of Economic Security Annual Report FY 98-99



CASELOAD REDUCTION AND PLACEMENT

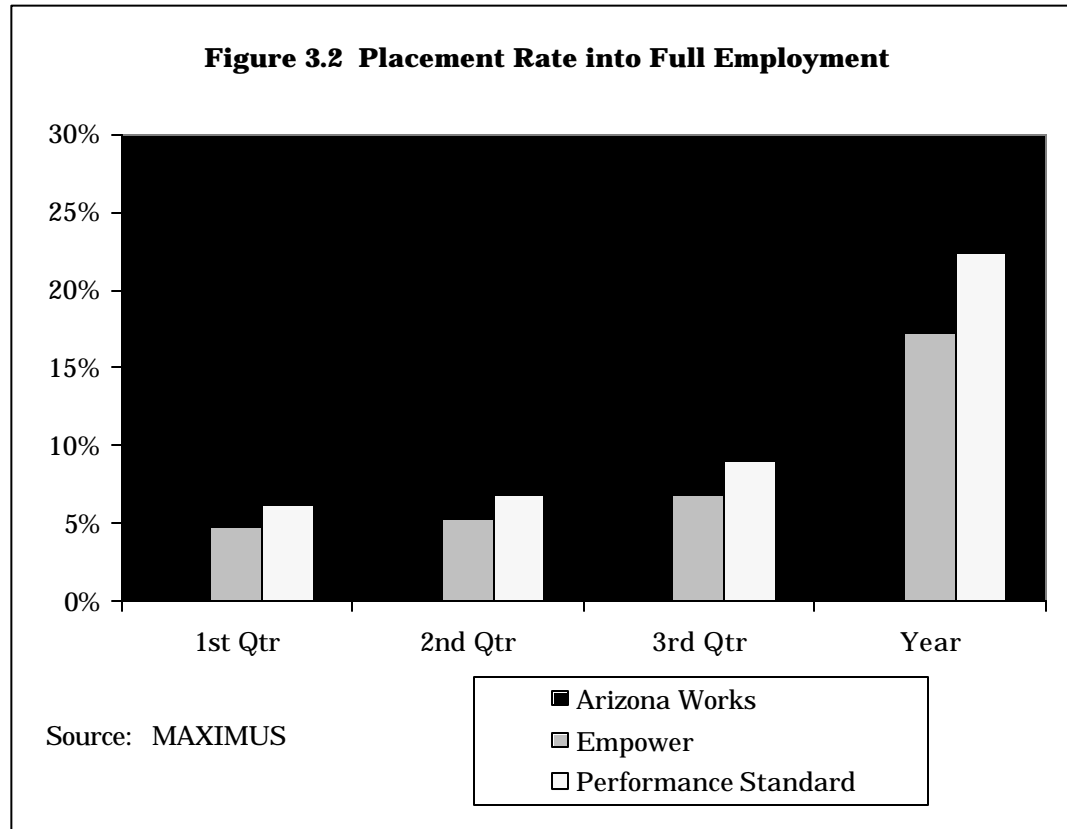
Probably the first question asked about a welfare reform program is if it is successful in moving people off the welfare rolls. Arizona Works began operation in Maricopa County on April 1, 1999. Figure 3.1 shows its total caseload from May 31, 1999 through October 2000 (the last month for which data is available). Also shown is the program's TANF caseload—those who are required to work by the program; the remainder consists of child-only cases, who are not required to work to receive benefits. During this time, the total caseload for Arizona Works fell by 6.8 percent. The total TANF caseload fell by 20 percent. For a very rough comparison, the average monthly caseload for all of Maricopa county fell by 0.8 percent from 15,555 in 1999 to 15,435 in 2000 (DES 2000).[‡]

Of course the second question asked about a welfare reform program is what is happening to the people leaving the caseload. Specifically, what kind of jobs are they finding. This was of major concern during the deliberation over contract incentives, hence the specific ones chosen. So it is to the incentives we turn for an answer to the second question. Following are the results for the several performance measures during the first year of operation (April 1999 through March 2000).

[‡] The figures for caseload reduction cited earlier under the discussion of incentive payments were only for the part of calendar year 1999 in which Arizona Works was operating.

Placement of Participants into Paid Employment

Figure 3.2 shows the placement rates of Arizona Works and EMPOWER for the first three quarters, and cumulatively for the first year. The performance standard is a placement rate 30 percent higher than EMPOWER Redesign.



MAXIMUS not only attained the 30 percent goal, but surpassed it for the year with a 24.5 percent placement rate, which is 7 percentage points higher than EMPOWER Redesign. Even during the first quarter transition Arizona Works outperformed EMPOWER Redesign by 34 percent.

Placement of Individuals in the Highest, Most Appropriate Employment Placement Level

Figures 3.3 through 3.6 show how successful MAXIMUS has been at placing individuals from the group of beneficiaries it inherited from EMPOWER when it began operation in April 1999. Figure 3.3 shows the placement rate for individuals who were exempt from work under EMPOWER. MAXIMUS failed to make the target of 50 percent of the cohort placed during the first year by 59 individuals, or 8.6 percent of the cohort.

The deferred cohort is the most difficult group to engage. Deferred or exempt participants are typically caretakers of children less than twelve months of age, teen parents caring for a child under twelve weeks, disabled individuals, and victims of domestic violence. Clearly, participants in this group have numerous obstacles to employment.

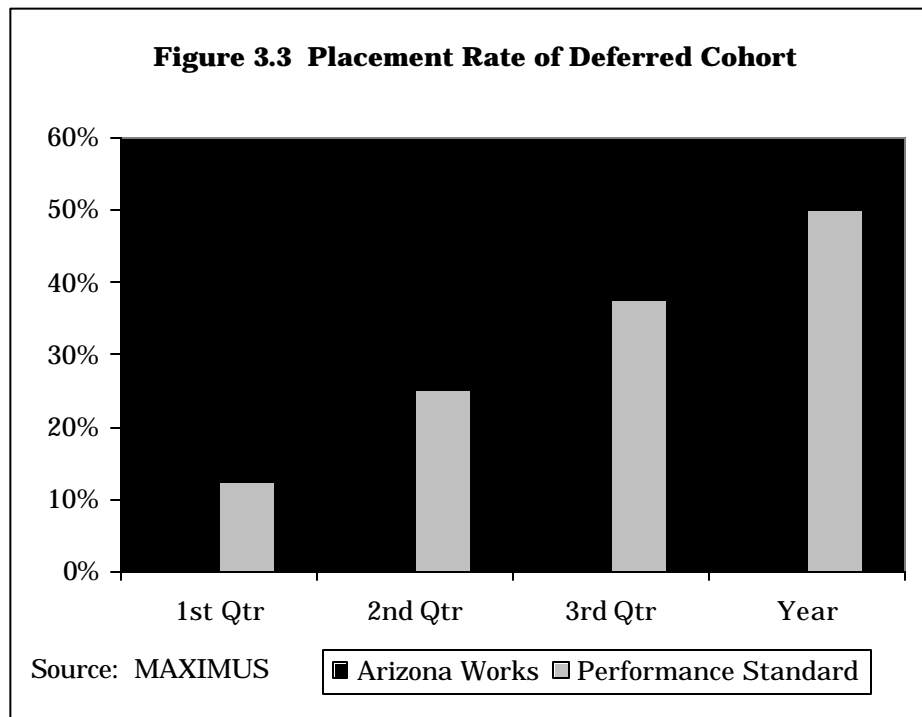
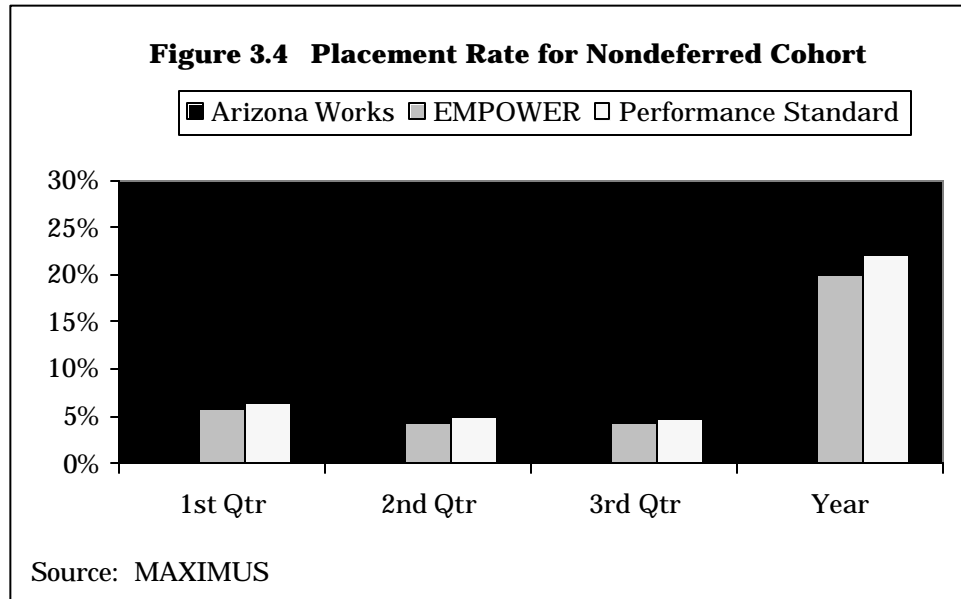
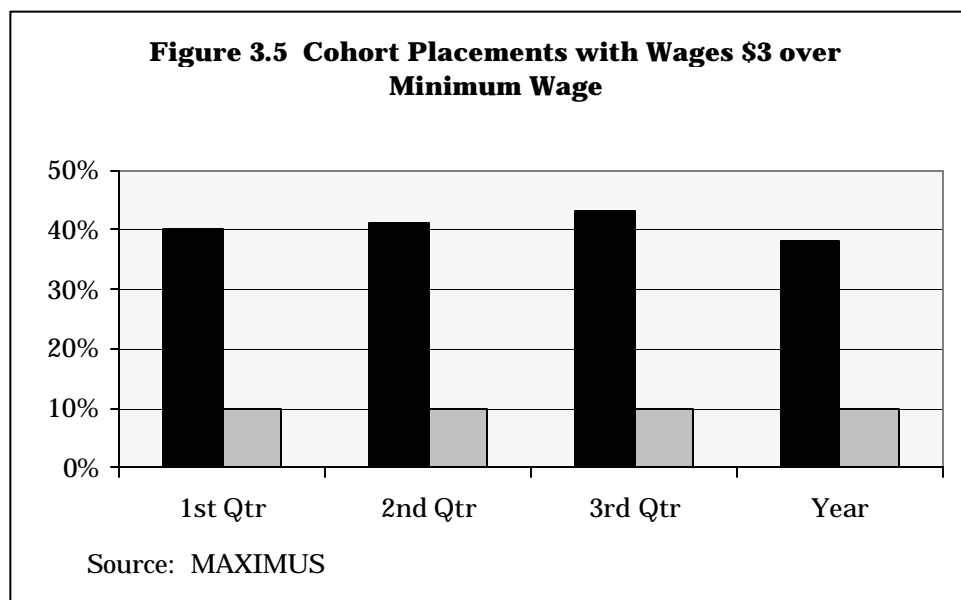


Figure 3.4 shows MAXIMUS' success in placing individuals from the non-deferred cohort. The goal was to achieve at least a 10 percent higher rate of placement for this group into permanent employment than EMPOWER Redesign in the balance of Maricopa County. As seen below, during the first year MAXIMUS attained a placement rate 18 percent greater than DES in the first quarter; 32 percent greater in the second quarter; and fell short in the third quarter. For the year overall, MAXIMUS exceeded the standard by 29 percent. While the actual placement rates may appear to be small, it is important to remember that these placements only include full-time employment.

Figure 3.5 shows MAXIMUS' success at placing individuals in jobs that pay at least \$3.00 over minimum wage, or \$8.15 per hour. MAXIMUS easily surpassed the 10-percent-of-placements goal for the year.

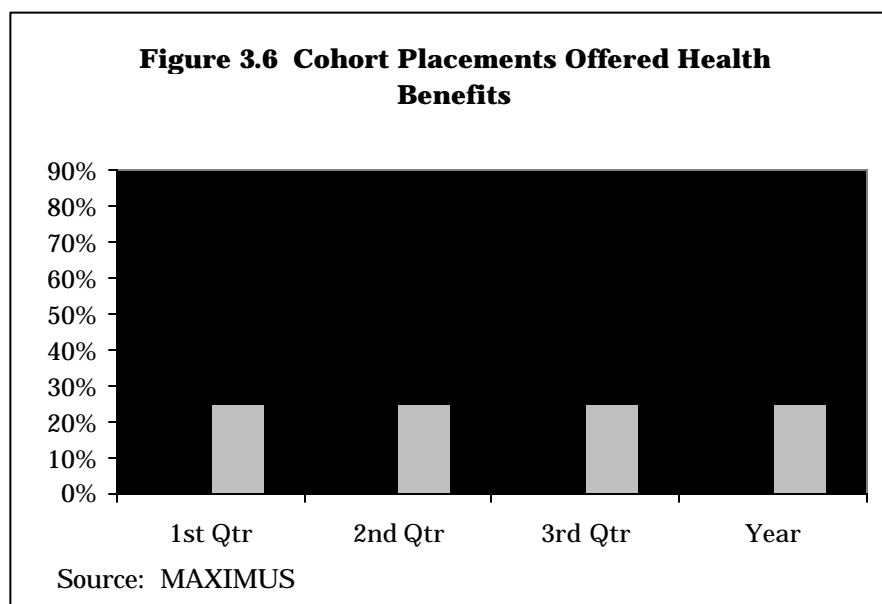


In order to gauge the difficulty of this goal, it is helpful to survey data from other programs. For EMPOWER, the average wage for JOBS placements in FY99 was only \$6.99, which represented a 7 percent increase from the prior year (DES 2000). The Arizona Cash Assistance Exit Study found that 57 percent of the respondents working one year after leaving cash assistance reported earning an average of \$7.47 per hour for about 35 hours per week (Westra and Routley 2000). Loprest (1999) found that the median wage in a sample of former welfare recipients was \$6.61 per hour, with 25 percent earning more than \$8 per hour.



Finally, figure 3.6 shows what fraction of welfare recipients under Arizona Works found jobs that offered health benefits. For the first year, nearly two-thirds of the placements from the non-deferred cohort found jobs that offered health benefits.

This outcome is difficult to evaluate because most studies track how many former recipients are actually insured through employer insurance plans and not whether the respective employers offer medical benefits. The Arizona Cash Assistance Exit Study found that only 15 percent of respondents were using employer insurance and 5 percent non-employer insurance, but the study did not inquire how many were offered yet declined insurance. Of the cases that were still receiving cash assistance, 16-18 percent had employers that provided health insurance. A nationwide study found that only 23 percent of employed former recipients receive health care coverage through their employers (Oliphant 2000).



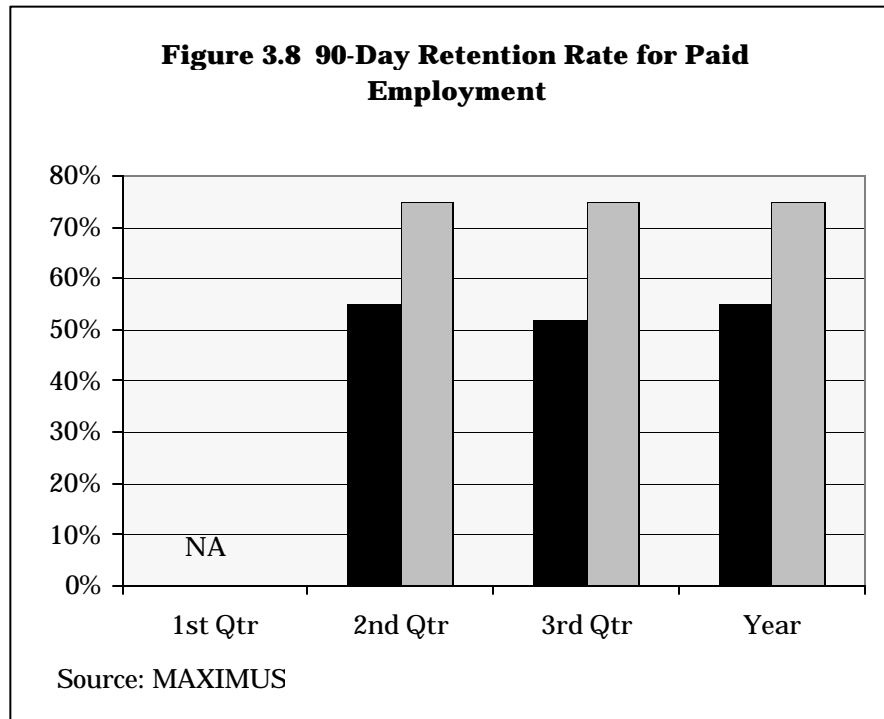
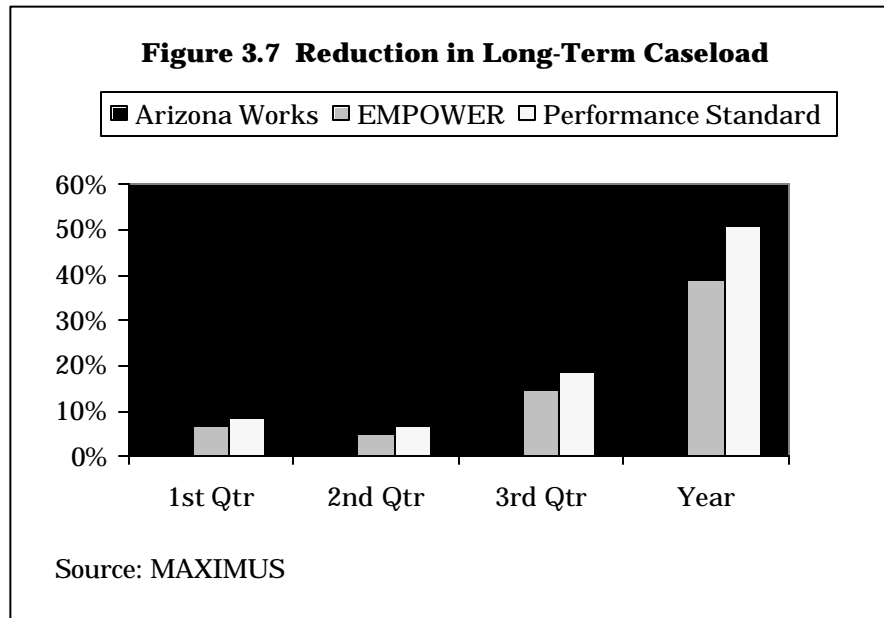
Reduction in Length of Stay on Assistance

Figure 3.7 shows MAXIMUS' success in reducing the long-term welfare caseload (defined as those who have spent 36 of the past 60 months on welfare). EMPOWER Redesign has outperformed MAXIMUS for the year with a reduction in the long-term caseload of 39 percent, compared to 35 percent for MAXIMUS.

Paid Employment Continuing after 90 Days

Figure 3.8 shows MAXIMUS' success at keeping former recipients employed. For the year as a whole, over 50 percent of beneficiaries were still employed 90 days after being placed in a job. When the third quarter results were presented at the

July 2000 board meeting there was discussion surrounding the true attainability of the 75 percent standard. MAXIMUS cited a study by Hershey and Pavette that offered a national retention average of only 40 percent. DES found that the average quarterly job retention rate for FY99 was 45 percent (DES 2000).



CUSTOMER SATISFACTION SURVEYS

From the beginning welfare advocates have been continually reminding everyone that welfare reform is not about caseloads, but about families; so merely looking at the numbers will not give a complete picture of how the Arizona Works program is really performing. From the beginning, MAXIMUS has been surveying the level of client satisfaction throughout the program. At the behest of the procurement board, a statistical summary of the surveys as well as a random sampling are distributed to the board on a monthly basis. The four surveys that they currently report on are an orientation participant survey, a case manager satisfaction survey (where the client rates the case manager), a customer service survey, and a MAXAcademy satisfaction survey. On each survey participants are asked to evaluate various aspects of the service they receive on a four-point scale: 1 being “poor” and 4 being “excellent.” The results for the first year of operation are shown below in table 3.2. MAXIMUS’ clients rate them on average between “good” and “excellent.”

Table 3.2 - Summary of Client Satisfaction Surveys: First Year

	Average Score	
	(1) Poor	(2) Average
	(3) Good	(4) Excellent
Orientation Participant Survey	3.59	
Customer Service Survey	3.74	
Case Manager Satisfaction Survey	3.79	
MAXAcademy Satisfaction Survey	3.82	

Source: MAXIMUS, bimonthly report, May 2000.

CASE MANAGEMENT, CO-LOCATION AND THE ADVANTAGES OF PRIVATIZATION

Welfare reform has brought organizational challenges for welfare agencies. The emphasis on “work first” has created a greater need for strong links and good communications among the divisions that provide the various services to clients. The importance of a more holistic approach to welfare is demonstrated by the Arizona Works RFP, “Because of the Arizona Works focus on employment and job placement, eligibility determinations and other services supporting work placements cannot be fragmented into various independent units and eligibility for Child Care, training, and other benefits cannot be separated from a work requirement,” (RFP VII-30).

Before Arizona Works, the advent of EMPOWER Redesign reinforced the reason for a more seamless provision of welfare services. In early 1998, four DES offices were chosen to become “Redesign offices,” that would co-locate the Family Assistance Administration, the JOBS division, Child Care Administration, and sometimes the Division of Child Support Enforcement. As of May 2000, there were approximately 80 Redesign offices.

An early evaluation of the first four offices found that, “management and staff generally felt that the Redesign office concept increased worker morale and program effectiveness and that Redesign was a better way to serve clients. The early experience of the four Redesign offices strongly suggests that physical co-location of administrative units improved client service overall and promoted the emphasis on Work First.” However, even though the divisions were now in the same building, some workers still reported problems in communication. Employees perceived the Redesign offices as a step in the right direction, but there was still room for improvement (Abt Associates 1999, p. 41).

Co-location did not change the functions of each division, and the lines between them remained thick. While it has become easier for clients to have only one physical location to go to, they can still be overwhelmed by the amount of programs and people that they need to work with. One Child Care employee stated, “office integration was in name only, really just sharing real estate” (Abt Associates 1999, p. 51).

In their analysis of the implementation of EMPOWER Redesign, Abt Associates noted a great deal of frustration among DES employees and the slow pace of change in the Redesign offices. “Overall, the office culture in three Phoenix research sites had not changed appreciably...Accuracy and timeliness in eligibility and grant determination were still stressed and remained performance goals. Although eligibility workers said that they emphasized to clients the importance of getting a job, they were not being evaluated by unit supervisors on how well they communicated the Work First message” (Abt Associates 1999, p. 17).

While DES tried to integrate services by assigning employees from different divisions to the same office, under Arizona Works, MAXIMUS took the concept further. Not only have the different departments been co-located, MAXIMUS also placed the function within one job description: a case manager. The case manager determines eligibility; provides employment counseling and strives to locate whatever resources are needed to overcome obstacles in the way of the client achieving self-sufficiency.

The change in their job descriptions was one of the topics most frequently discussed in our interviews with former DES employees who went to work at MAXIMUS. One case manager supervisor switched specifically because she wanted to be able “to help clients from start to finish.” She now feels that she is better equipped to help clients because she “can now see the whole picture.” A lead case manager enthusiastically commented, “My clients are my responsibility until they get a job and then six months after that.”

Another recurring theme we heard throughout our interviews with MAXIMUS employees was the increased levels of discretion and power they had

compared to their experience in DES. Part of this is due to their expanded job descriptions, but it is abetted by the philosophy at MAXIMUS. Every employee repeated that the motto at Arizona Works is “Do the Right Thing.”

Under EMPOWER and Arizona Works, DES and MAXIMUS provide supportive services to clients. At DES, our respondents felt bound by rules and job descriptions. Eligibility interviewers (EIs) at DES are not able to provide any emergency services. EIs can only refer clients to another department: the Community Services Administration. JOBS employees at DES can assist clients with clothing, transportation, and some housing needs. Supportive services has become a crucial component of Arizona Works operations, and employees agree that these services are critical if the goal is to promote long term self-sufficiency. The lack of multiple layers of bureaucracy facilitates providing these services to clients.

Case management and caseworker discretion are a few steps back toward the days when welfare was called relief, and those in charge of dispensing it had paternalistic sway over their charges. This power was stripped away as judges and advocates came to view welfare as a right. Exhorting beneficiaries or sanctioning them for not working or bad behavior came to be viewed as oppression; and caseworkers were reduced to shuffling paper and handing out the dole (Sosin 1986). As we will see in the next chapter, the expanded responsibilities, greater power and flexibility give front line employees the feeling that they are helping people, which greatly boosts their morale. A lead case manager commented that at MAXIMUS she is told “no customer sleeps on the street,” but when she was at DES she would be asked why she spent so much time with a client.

DES and MAXIMUS both recognize that a more integrated approach in service is necessary to achieve participant self-sufficiency, yet every MAXIMUS employee interviewed commented that Arizona Works took a more holistic approach to welfare reform. This is partly because MAXIMUS had the opportunity to build its operation in Arizona from scratch, while DES faced the task of re-engineering the state’s largest agency—something akin to turning a supertanker. DES was established in 1972 and has grown to nine divisions administering over 60 programs. Agencies steeped in history are difficult to change as most processes and procedures have long been institutionalized. Furthermore, any agency with more than one assignment will also have more than one culture, and they are not easily merged (Wilson 1989).

However, the greater flexibility at MAXIMUS is also due to the fact that as a private company, it does not have to carry the burden of government rules and regulations. Public administrators are constrained by many rules and regulations that impede their ability to adapt to new environments or mandates. Not being hemmed in by typical government procurement processes means that MAXIMUS can secure a contract in one to two days, while at DES it can take three to four

months. In reference to Wisconsin Works, Steve Perales of MAXIMUS observed that, “We’ve got an advantage over the counties in terms of speed. We can make our decisions quicker—getting office space, buying equipment, hiring staff, whatever. Government agencies take forever to do this stuff. It’s a bureaucracy, and any time you want to do anything, there are several steps you have to take, each of which has to be approved” (Dodenhoff 1999).

Here in Arizona, the information technology manager of Arizona Works summarized his sixteen years of experience at DES in a MAXIMUS newsletter:

During that time, I helped implement numerous programming modifications that helped the citizens of the state served by FAA [the Family Assistance Administration at DES]. However, the process was extremely inefficient, with modifications that should take weeks, taking months and ones that should have been done in months...taking years. This was mainly due to over-management, committee reviews, extensive paperwork, etc. that DES is fond of (Arizona MAXChat, April 2000).

Union contracts, procurement rules, and civil service guidelines are all examples of the numerous restrictions that hamper organizational adaptability in a public sector organization. For example, a private operator in Wisconsin remarked, “If we want a bilingual worker, we can just hire someone who speaks Spanish and English. But with the county, a bilingual employee has a different pay grade and a different job classification. It’s a different job with differently defined functions” (Dodenhoff 1999). In a rapidly changing economy and population, organizations involved in welfare reform need the flexibility found in the private sector.

IV. THE FATE OF DES EMPLOYEES

Opponents of privatization often assert that private companies can only make a profit by offering inferior wages and benefits to employees, or providing substandard services to clients. Proponents of privatization state that freedom from civil service, union, and administrative rules and regulations enables private organizations to provide equal levels of service at a lower cost. A recent Urban Institute study found little empirical research to settle the question in the area of social services (Nightingale and Pindus 1997).

The study did note, however, that privatization does result in a definite reduction of membership in public sector employee unions. Hence, it is not surprising that the public sector employee unions are vehement opponents of privatization. The local chapter of the American Federation of State, County, and Municipal Employees (AFSCME) estimates that they only represent approximately 10 percent of Arizona's state employees, but the union recognizes that privatization has the potential to decrease their political influence as well as their ability to attract new members. The reality of this fear is shown by the fact that MAXIMUS operates the urban pilot area with 97 employees, where DES once had 158 FTEs.

The Churchillian tone of the following excerpt from the AFSCME web site demonstrates their strong opposition towards privatization.

With contracted government, we suffer both as public workers and as taxpayers who want an efficient, effective and honest government... We must fight contracting out with every available resource, every weapon in our arsenal and on all fronts. This means our contracts, our civil service laws, our political clout, our public relations capability, our legislative expertise and all our powers of intellectual persuasion (AFSCME 2000a).

Since the conception of Arizona Works, local representatives from AFSCME have lobbied to prevent passage of the law, to block the extension of the program into the second pilot site, and to influence the design of the contract. In spite of the best efforts of AFSCME and other opponents, the Arizona Works program began on schedule. Now, nearly two years later, the fate of DES employees in MAXIMUS can be reviewed to see if the concerns of privatization opponents materialized.

INTEGRATION OF DES EMPLOYEES

In the pilot area there were 402 DES employees; this included 341 staff within the Family Assistance Administration (FAA), 27 staff from Child Care Administration (CCA), and 34 staff members from the JOBS division. Of the 402 positions, DES vacated 158.8 positions for the Arizona Works project. The

remainder were retained to continue the work not absorbed by MAXIMUS, such as Food Stamp and AHCCCS eligibility. Of the vacated positions, all of the employees were either hired by MAXIMUS or transferred to another area within DES. No DES employees lost their job as a result of Arizona Works.

The Arizona Works legislation required that DES employees displaced by implementation of Arizona Works receive priority consideration for employment by the program based on prior training and experience (ARS 46-342F). MAXIMUS held six information sessions for DES employees to explain the program and discuss possible employment opportunities. Approximately 300 state employees attended the presentations. Before public advertisement of open positions began in early February 1999, MAXIMUS opened a preferential hiring session for all DES employees throughout metropolitan Phoenix. One hundred and twenty applications were received from DES employees and 115 interviews were held. Eventually, 56 DES employees were hired in March 1999.

During this time DES was also coping with a reduced budget as a result of caseload reductions, so it is difficult to ascertain how many of the job transfers and reductions were a result of Arizona Works or the budget cuts. A total of 333 FTEs statewide were cut from FAA alone beginning in July 1999. In turn, this resulted in a decrease of 47 FTEs for Arizona Works.

As of March 2000, 67 percent of the employees in the Arizona Works project were former DES employees. Since the program began, there have been a total of 81 employees with DES experience, and of these, 62 were still with MAXIMUS in March 2000. Forty-one have been with Arizona Works since the program began and 21 have been hired since.

EMPLOYMENT OPPORTUNITIES

AFSCME contends that contracting out significantly diminishes social and economic opportunities available to women and minorities (AFSCME 2000b). Table 4.1 provides demographic information regarding employees at the Arizona Works division of MAXIMUS; the Family Assistance Administration (FAA) and the JOBS administration at DES; and all residents of Maricopa County. The data shows that although there are differences among the three organizations, the employee populations of all three organizations are definitely not representative of the overall county population. In fact, all three organizations have a more than 20 percent under-representation of white employees as compared to Maricopa County. In contrast, women are over-represented in all three organizations by more than 25 percentage points.

Table 4.1 Demographic Comparisons by Organization

	Maricopa County 1997 Census	MAXIMUS / Arizona Works	DES-FAA	DES-JOBS
Male	49%	25%	16%	21%
Female	51%	75%	84%	79%
White	73%	50%	43%	46%
Hispanic	19%	33%	36%	38%
Black	4%	14%	8%	9%
Native American	2%	1%	10%	4%
Asian	2%	1%	2%	1%
Unspecified		1%	2%	2%

MAXIMUS has 9 percent more men than DES-FAA and 4 percent more than DES-JOBS. MAXIMUS also has slightly more white employees (50 percent) than both FAA (43 percent) and JOBS (46 percent). However, 14 percent of MAXIMUS employees are black, which is 6 percentage points higher than FAA and 5 percentage points higher than JOBS. FAA, by far, has the highest proportion of Native American employees at 10 percent.

Table 4.2 shows the demographic characteristics of the most critical position in the Arizona Works program—the case manager. Case managers represent approximately 56 percent of all Arizona Works employees, and their closest counterparts at DES are eligibility interviewers (in FAA) and JOBS personnel. Eligibility interviewers comprise about 67 percent of FAA employees.

All three positions are dominated by women, representing 79 to 84 percent of employees with JOBS personnel having the largest amount of men with 21 percent. Fifty-one percent of Arizona Works case managers are white, as compared to 45 percent of eligibility interviewers and 46 percent of JOBS employees. On the other hand, 17 percent of case managers are black, which is a significantly higher percentage than eligibility interviewers at 8 percent and JOBS personnel at 9 percent. The JOBS administration has the highest percentage of Hispanics at 38 percent, and eligibility interviewers have the largest representation of Native Americans at 10 percent.

The demographic data reveals that while there are differences between the organizations and positions, none are striking evidence of discrimination by the private company. There are no great disparities among the three organizations with respect to gender or race, except when compared to the county population at large. Hence, there is little evidence here that would lead one to believe that contracting out has led to diminished opportunities for women or minorities as compared to employment with DES.

Table 4.2 Demographic Comparisons by Job Description

	Arizona Works Case Managers and Supervisors	DES Eligibility Interviewers and Supervisors	DES- JOBS Personnel
Male	17%	16%	21%
Female	83%	84%	79%
White	51%	45%	46%
Hispanic	27%	34%	38%
Black	17%	8%	9%
Native American	2%	10%	4%
Asian	2%	2%	1%
Unspecified		2%	2%

EMPLOYEE SURVEYS

In order to plumb employee views of MAXIMUS compared to DES we held four interviews with MAXIMUS employees who were formerly employed by DES. Throughout these interviews, common themes began to emerge and we were able to identify potential survey topics and questions. In May 2000, we sent 62 surveys to former DES employees currently working for MAXIMUS. The surveys asked about opinions and experiences at both DES and MAXIMUS. The surveys did not ask for names and guaranteed respondent anonymity.

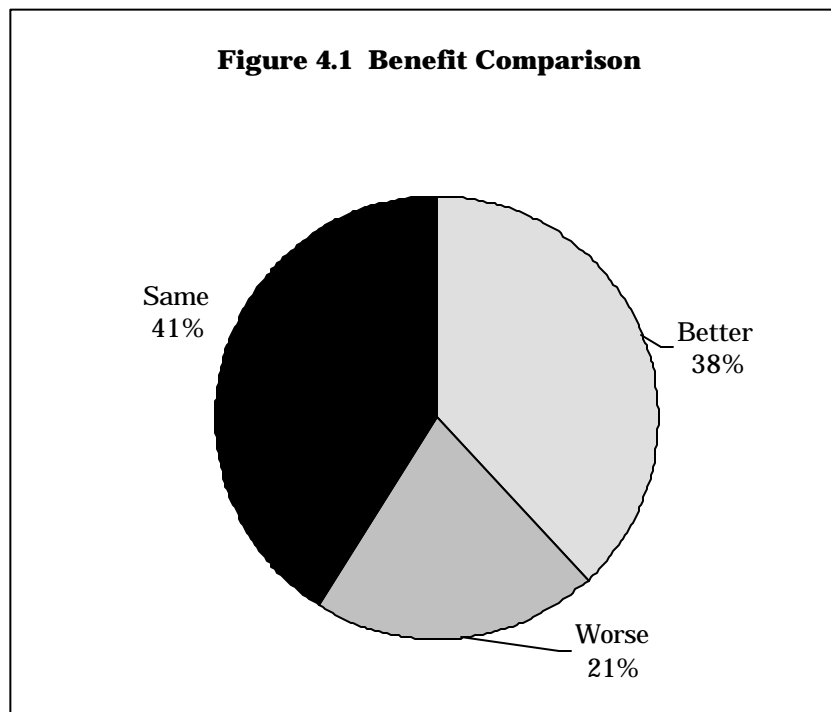
Forty-two surveys were received—a response rate of 68 percent. The surveys received included responses from sixteen different positions within the Arizona Works program. Eleven of the respondents had been with DES from one to three years, and twelve had been there from four to six years. Five respondents had been employed by DES for over thirteen years. Only three of the forty-two respondents were union members while at DES.

Salaries and Benefits

One of the most frequent assertions made by public sector unions is that a desire for profit will result in lower wages and benefits for employees in privatized services. However, salary data received from MAXIMUS, shown in table 4.3, reveals that salaries of former DES employees have increased 31.5 percent on average since they began working at MAXIMUS. The average salary of a case manager with Arizona Works is \$26,743, which represents a 23.6 percent increase over their average salaries at DES, which was \$21,637. The average salary increase for a case manager supervisor was 52 percent. Furthermore, 37 percent of prior DES employees had already received at least one promotion as of March 2000.

Table 4.3 Salary Comparison			
	Current MAXIMUS Salary	Former DES Salary	Average Increase
Customer Service Rep.	\$22,132	\$17,482	26.6%
Child Care Coordinator	\$33,627	\$26,300	27.9%
Case Manager	\$26,743	\$21,637	23.6%
Lead Case Manager	\$29,967	\$22,184	35.1%
Case Mgr. Supervisor	\$40,090	\$26,350	52.1%
All Employees	\$30,714	\$23,362	31.5%

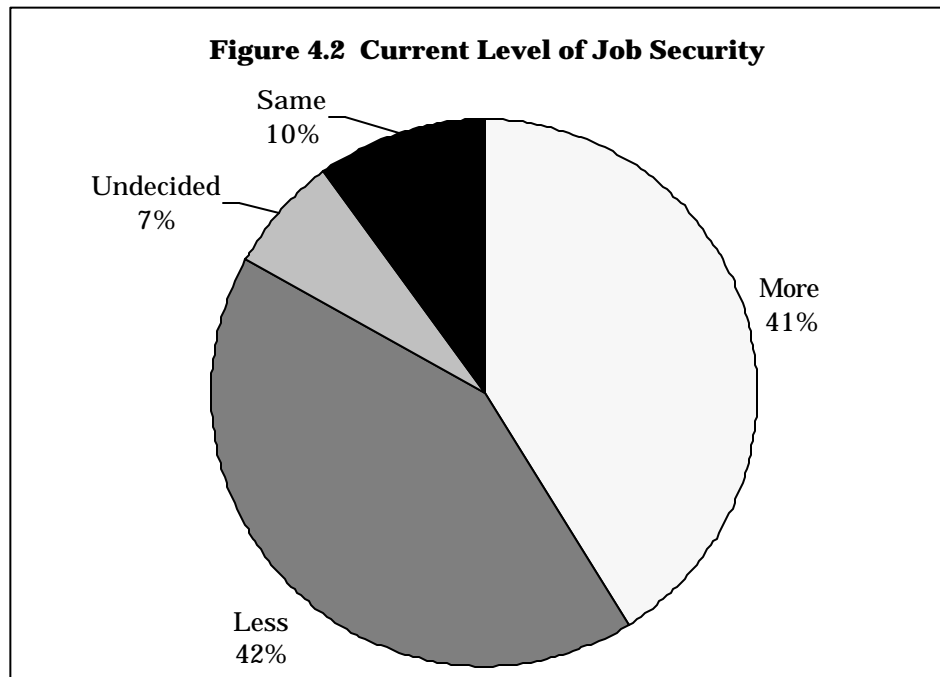
Benefit packages are difficult to compare because individual opinions of them vary depending on their personal situations. For example, certain benefits may appeal more to a married employee with children than to a single employee. For this reason, employees were asked to generally compare their satisfaction with DES and MAXIMUS benefit packages. Thirty-eight percent of respondents said their benefits at MAXIMUS were better, while 21 percent said that they were worse. The remainder, or 41 percent of respondents, rated the packages as the same. (See figure 4.1.)

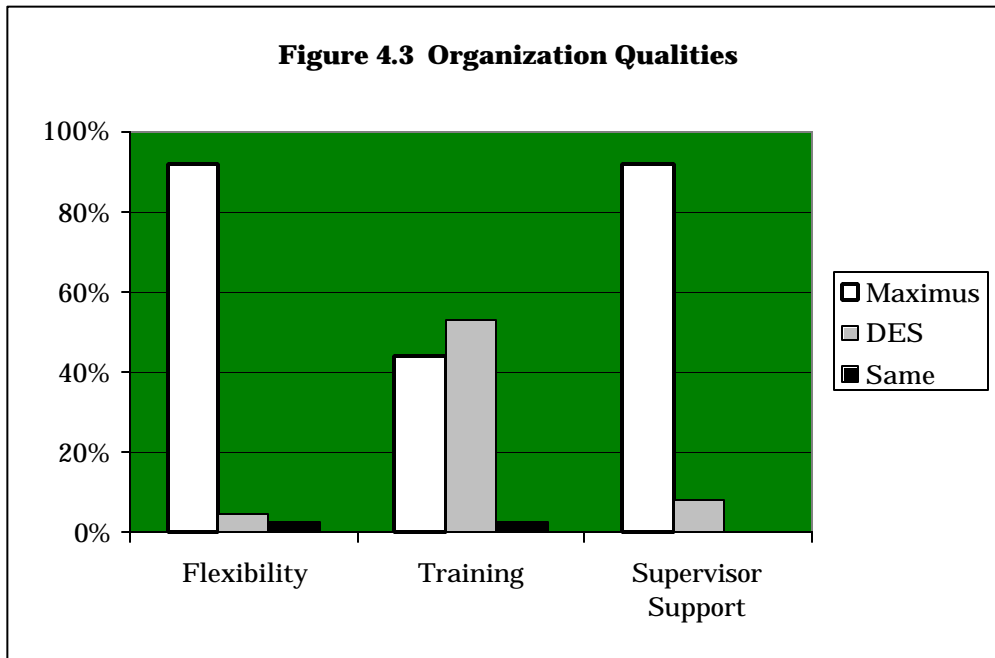


Job Security and Satisfaction

During the interviews it was clear that the employees were very nervous about leaving the security of state employment. However, some commented that they felt more confident about their future because of the wealth of new job experiences that they have received. Survey responses concerning job security were almost evenly divided. Forty-one percent reported feeling more job security with MAXIMUS, but 42 percent felt that they had less security than with DES. Ten percent felt that they had the same level of security as with DES and 7 percent were undecided.

To gain a greater understanding of which aspects of their work environments had changed the most, employees were asked which employer (DES or MAXIMUS) provided more training, flexibility, and supervisor support. Employees overwhelmingly rated MAXIMUS higher in the areas of flexibility (92 percent) and supervisor support (92 percent). However, opinion was divided on the issue of job training. Fifty-three percent rated DES higher in this area with 44 percent rating MAXIMUS higher. (See figure 4.3.)

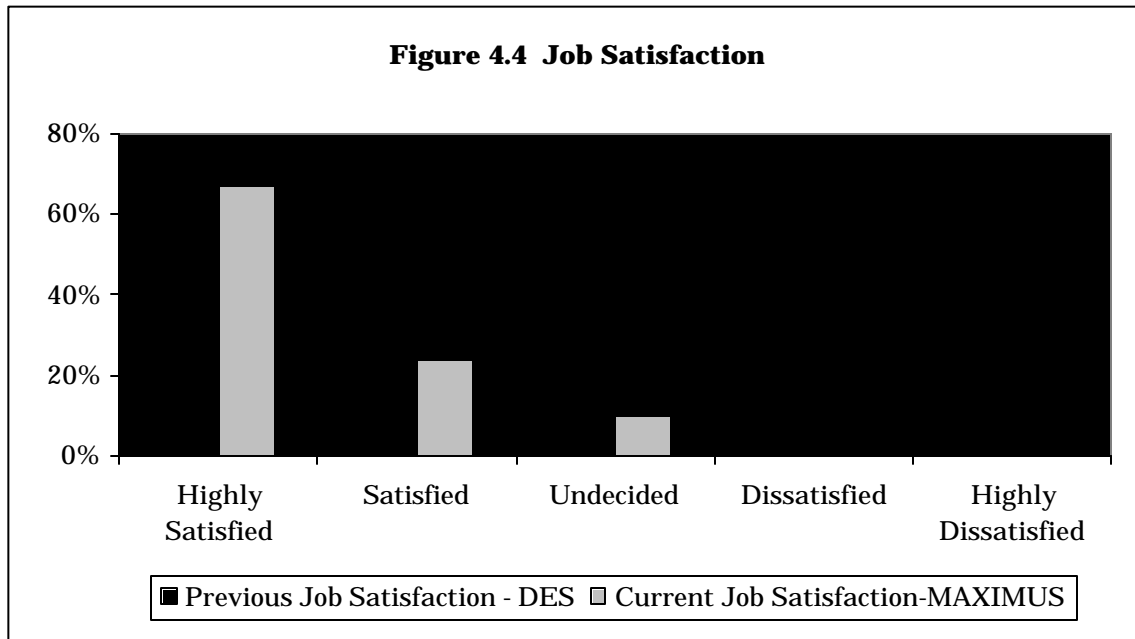




As a final gauge of employment conditions, employees were asked to compare the amount of hours that they worked in both organizations. Thirty-three percent of respondents said that they worked the same amount of hours per week, and 64 percent reported working more. While 71 percent of employees worked forty hours or less a week at DES, 74 percent reported that they now work over forty hours a week with MAXIMUS. (See table 4.4.)

The increase in hours worked can be due to an increased level of job satisfaction. When employees feel valued and empowered, they are more likely to enjoy their work and increase their productivity. Figure 4.4 below gives the responses to questions about current and previous levels of job satisfaction. It tells a story consistent with the hypothesis that employees are working longer because they are happier with their work. Though only 43 percent of respondents were “highly satisfied” or “satisfied” while at DES, 91 percent are “highly satisfied” or “satisfied” at MAXIMUS. No respondents reported any level of job dissatisfaction with MAXIMUS, compared to 45 percent of respondents conveying dissatisfaction while at DES.

Hours Worked per Week	Hours Worked with DES	Hours Worked with MAXIMUS
30-40	71.4%	26.2%
41-45	26.2%	38.1%
46-50	2.4%	33.3%
51-60		2.4%



It is clear that an overwhelming percentage of former DES employees working under Arizona Works are more satisfied with their jobs in spite of the fact that many feel that they have less job security. These employees also appear to be aware of the long-term effect that the Arizona Works project can have on welfare reform. In fact, seven survey respondents commented that being a part of privatization or expanded welfare reform was one of the reasons that they decided to leave DES. In addition, when asked how they felt toward welfare reform efforts in Arizona, 100 percent of respondents chose, “More reform is needed/Arizona Works should be expanded.” Their other two choices were, “the system under EMPOWER Redesign was sufficient” and “reforms have been too tough.”

The final section of the survey solicited perceptions of Arizona Works and EMPOWER Redesign. When asked which *employer* better enables them to provide good service to their clients, every single respondent chose MAXIMUS. In an effort to clearly differentiate Arizona Works from MAXIMUS, employees were also asked which *program* provides better service to its clients. All but one respondent chose Arizona Works.

Employee Perceptions and Opinions

Participants in our survey were invited to offer any additional comments as to why they chose to work for MAXIMUS, or any overall comments that they would like to share. Fourteen respondents cited improved salaries or benefits as the primary reasons they chose to leave DES to work for MAXIMUS, and thirteen

mentioned greater opportunities for personal growth. Here are samples of the comments received:

To help the participants above and beyond my duties and to reassure them that they are winners.

I came to Arizona Works because I believed in their vision and goals for Arizona. MAXIMUS is reducing the welfare rolls but never at a participant's expense.

I wanted to do more for the participants and I felt that MAXIMUS would provide me that opportunity. So far they have exceeded my expectations!

To have the opportunity to help disadvantaged families gain self-sufficiency with a company who believes in people, and believes in the Arizona Works project.

MAXIMUS has been a wonderful experience for me. I have been able to make things happen for people that were never available with DES. All employees with MAXIMUS are rewarded for their hard work. All of us believe in the MAXIMUS concept and we "do the right thing." Everyday we learn more about how to serve people. The knowledge and family atmosphere at MAXIMUS has allowed me to promote and train my employees and help the customer. We have high values and truly care for the people we serve. It's not just about "eligibility" - it's about family development towards self-sufficiency.

Most employees spoke candidly about the changes in their job descriptions as well as the programmatic differences between EMPOWER Redesign and Arizona Works. A total of twenty-three respondents commented on an enhanced ability to serve clients better and "make a difference." Some of the reasons that they gave for this were: greater flexibility of services; ability to make decisions/more responsibility; faster response time/less red tape/less bureaucracy; and ability to do case management/not just about evaluating eligibility. Below is a partial list of some of the observations offered:

When I started working for the state I really believed I was going to be able to help people and make a difference in their lives. I also thought I'd be able to earn a good living and be able to advance as well as have job security. After a while I saw that none of that was possible except the job security which is nothing when you feel there is no hope of bettering yourself, which is what most of the clients felt like with the state EMPOWER program. The state offered them no hope and no

way out. MAXIMUS on the other hand offers both. My participants now know there is a better way, which gives them hope and the will to change their lives. That's why MAXIMUS is helping people to reclaim their lives and become productive members of society.

I tried to get involved with the participants with DES. I did resumes, looked for jobs, and tried to help with barriers but was always discouraged and was told that it was not my job. I feel I am better able to help get rid of certain barriers that they may have, such as housing, day care, autos, and working. I am able to see 15 to 20 participants get employment right away and this is a monthly figure. Others I have sent to MAXAcademy or volunteer work and most of these people are working within 2 to 3 months.

The focus at DES is on eligibility. We were instructed to determine eligibility only and were told very clearly that eligibility is where our job ended. The only way to operate a successful welfare reform project is by intense case management. Under the EMPOWER program—there are so many exemptions from participation that many participants (the ones who need intense case management the most) are never offered the option of participating with JOBS. Unfortunately, under the current EMPOWER structure, the only way to get any case management from DES is to participate with JOBS. I was very excited about the structure of Arizona Works – that everyone gets case management, regardless of deferral status. I also appreciated from the very beginning, that while eligibility is important, MAXIMUS' focus is on the participant not just on handing out money as a “quick fix” or Band-Aid.

The opportunity to use my knowledge base and education to have impact on change in the area of welfare reform/serve participants without bureaucratic restrictions.

The flexibility to do what you feel is right for your participants without having to worry about red tape.

I would be able to work closer with the participants – actual case management.

One does not go into social work for the money; the satisfaction of helping people is a large part of the reward. The holistic, case management way of providing services—made possible by the flexibility and innovation of a private contractor and the Arizona Works legislation—has created an elan among employees that is strikingly evident in the above comments.

CONCLUSION

We grant that our surveys examined a biased sample. Those making the jump from DES to MAXIMUS were likely to be the most disaffected. Nevertheless, the results are striking and a strong demonstration that the concerns of privatization opponents for the effect of Arizona Works on DES employees were overwrought. Many former public employees have found what they believe is a better opportunity through privatization. Former DES employees now working for MAXIMUS are, on average, making substantially more money, comfortable with their current benefit package, working more hours, and show significantly higher levels of job satisfaction.

When asked about his opinions of the employee transition, Chairman Gutierrez admits that he had been bracing himself for the worst, yet was happy that none of the dire predictions came to be. He also complimented DES for the appropriate and professional way that they handled the situation, and MAXIMUS for keeping their word (Gutierrez 2000).

It is ironic that in spite of the overwhelming success and satisfaction of former DES employees into the Arizona Works system, local AFSCME officials still lobbied for a bill that would have prevented the second phase of the program from expanding into a rural area. In a weekly fax sent to update members on legislative issues on April 10, 2000, readers were encouraged to call their legislators, because “your job may not be on the chopping block right now. However, we must try to nip this privatization threat in the bud, because, corporate greed has a way of spreading. It will only be a matter of time before your job will be on their list. Call today” (www.4.net.afscme97.org/legis_2000_0410.html).

V. CONCLUSION

Welfare reform began long before the inception of Arizona Works. While many states have been toying with reforms like time limits, sanctions, and work requirements, only Arizona and Wisconsin have tried to revamp the entire administration of the program. As this report has found, the Arizona Works experiment holds great promise.

MAXIMUS, the private contractor, has been able to place 30 percent more clients into full-time employment than DES and has well surpassed the goals of placements with high wages and health benefits. Meanwhile, MAXIMUS has administered the program the first year at 22 percent less cost than DES, and by the fourth year will provide savings of 34 percent. Even if Arizona Works as a program showed no greater impact on welfare beneficiaries than EMPOWER, it still saves money on administrative expenses for Arizona taxpayers.

One of the underlying trends in welfare reform has been to require more, not only of clients, but also of those that run such programs. As ex-DES Director Linda Blessing noted “(welfare reform) represents as much a change in attitude for government as it does for welfare recipients” (Archer 1995). The privatization component of Arizona Works has made this change in attitude easier. Evaluations of EMPOWER Redesign have shown how difficult it is for an agency as large as DES with a firmly embedded organizational culture to change. A private company running a brand new program has a greater capability to change and respond, especially in a constantly changing political landscape like welfare reform.

Our survey of employees at MAXIMUS found that any dire effects of privatization on government employees can be mitigated. Contrary to the prediction of public sector labor unions, the salaries offered by the private contractor are higher, and the benefit package is ranked by 79 percent of former government employees as equal or better than the one they previously received. Even more telling, although 42 percent of former government employees who switched to MAXIMUS feel they have less job security, and 64 percent are working more hours per week, 91 percent are either “highly satisfied” or “satisfied” with their new employer.

Ironically, we found that Arizona Works is the program that has empowered employees. One case manager commented that, “I feel like I can make a difference now. They trust my judgement and have confidence to rely on us.” While some may argue that the opinions of the employees we surveyed are biased because they are the ones who chose to leave DES, their opinions still matter because they are the ones that determine the effectiveness of Arizona Works.

Unfortunately, Arizona Works is in danger of dying of neglect. The procurement board went a six-month span during the Summer and Fall of 2000 without meeting—while important issues regarding the expansion of Arizona Works into a rural area and the payment of the contractor went unresolved. It took nine months to approve the incentive payments for the first year. In addition to being slow, the incentive structure is arbitrary, occasionally unrealistic and tilted toward being unrewarding for the contractor. Arizona Works has already demonstrated notable results in its first year, and is a potential model for the nation. It deserves a better chance.

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APPENDIX A - Program Differences

	EMPOWER REDESIGN	<i>Arizona Works</i>
School Attendance	Dependent children ages 6-16 must attend school.	No requirement.
Immunization	Dependent children must obtain required immunizations.	No requirement
Deprivation	Dependent children must be deprived of parental support or care due to the continued absence, death, incapacity, or unemployment of a parent.	No requirement, but must meet financial and non-financial eligibility requirements
Two-parent families (TPEP)	Two-parent families who are eligible due to unemployment of the primary wage earning parent are limited to six months of cash assistance within a 12-month period.	No special benefit limit for two-parent families.
Eligibility group	Assistance unit includes a dependent child for whom an applicant requests cash assistance plus any natural or adoptive parent, and any natural or adoptive brother or sister, of the dependent child.	An Arizona Works group includes the custodial parent, all dependent children of the parent, and any spouse who resides in the home, and any dependent children of the spouse.
Dependent child	A child under age 18, or if 18 is enrolled full-time in high school or equivalent and is expected to graduate before reaching age 19.	A child under age 18.
Vehicles	Value of one vehicle is excluded.	Equity value of vehicles up to a total equity value of \$4,500 is excluded.
Income limit	Thirty-six percent of the 1992 federal poverty level after deduction of earned income disregards.	Thirty-six percent of the 1992 federal poverty level. <i>(The income limit is different, but earned income deductions</i>

		<i>are applied to Arizona Works.)</i>
Earned income disregards	\$90 plus 30 percent of the remaining gross income; child care expenses up to \$200 if employed full-time or up to \$100 if employed part-time; and the benefit amount the family is ineligible to receive due to the 24-month time limit or the family benefit cap.	Same. <i>(Earned income disregards were not included in Arizona Works legislation. The intent was to have Arizona Works with disregards similar to EMPOWER Redesign disregards.)</i>
Cash grant	Payment amounts for cash assistance are based on 36% of the 1992 Federal Poverty level adjusted for family size, income, and shelter cost factor.	Flat grant amount regardless of family size. Grants are only available for participants in Level 3 (\$390) and Level 4 (\$350).
Benefit levels	Two benefit levels. A-1 level for assistance units with shelter expenses. A-2 level for assistance units without shelter expenses.	Same benefit level regardless of shelter expenses.
Sanctions	<p>Graduated sanctions are applied against the assistance unit benefit amount for failure to comply with child support collection activities, work program requirements, school attendance and immunization requirements.</p> <p>Sanction amounts equal: 25% for the first month; 50% for the second month; 100% for the third and consecutive months.</p>	<p>Graduated sanctions are applied against Arizona Works group benefit amount for failure to comply with child support collection activities and employment/training requirements.</p> <p>Sanction amounts equal: 25% for the first month; 50% for the second month; 100% for the third and consecutive months.</p>
Hourly sanctions	None	If a participant is placed in level 3 or 4 and misses a scheduled employment preparation activity or employment without good cause, the Arizona Works

		grant is reduced by \$3.25 per hour.
Family benefit cap	No additional cash benefits for children born while on assistance.	No family benefit cap due to the nature of the flat grants.
Time limit	Adults are limited to 24 months of cash assistance within 5 years. 60-month lifetime benefit limit (federal law).	24-month participation limit in any work level. 60-month lifetime benefit limit.
Individual development accounts	Recipients can set aside up to \$9,000 for education expenses.	Same.
Child only cases	Income of the non-parent relative is not counted. Maximum monthly benefit of \$204 for one child.	Same.
Step-parents	A portion of the income of a step-parent is counted.	All the income of a step-parent is counted.
Minor parents	A minor parent who lives with a “needy” adult with no other eligible dependent children is eligible as a separate assistance unit. The minor parent and child may receive their own grant but a portion of the income of the adult must be considered.	A minor parent who lives with a “needy” adult must be included in the adult’s Arizona Works group. All are considered one group, therefore their eligibility is also determined as a group.
Diversion	Diversion payment of up to three times the monthly benefit amount for which the family qualifies. No limit on the number of times a family may receive a diversion payment.	Diversion payment up to \$600. Limit of one diversion payment within a 12-month period.
Work activities	Defined work activities include: unsubsidized employment; subsidized private or public employment; work experience; on-the-job training; job search and job readiness assistance; community service; vocational education training; job skills training directly	Defined work activities include: full-time unsubsidized employment; subsidized employment; trial job in unsubsidized unpaid position; or community referral to work activities. Individuals in trial jobs and community referral work activities may be required to participate

	related to employment in the case of a recipient who lacks a high school diploma certificate or equivalency; or satisfactory attendance at a secondary school or in a course of study leading to a certificate of general equivalency in the case of a recipient who has not completed secondary school or received such a certificate.	in education or training. Flat grant levels are tied to the type of work activity an individual performs.
Level of work activity	The minimum work participation level is determined by the Department of Economic Security based on federal work rate requirement.	The minimum work participation levels are specified as full-time for unsubsidized employment; up to 40 hours for subsidized employment; not more than 30 hours per week for trial jobs; and not more than 25 hours per week for community referral activities. The maximum number of hours required in education and training is 15 hours per week.
Work activity deferment	The following individuals are temporarily deferred from work requirements; parent or relative caring for a child under the age of one for not more than twelve months; minor parents caring for a child under twelve weeks; disabled individuals; individuals caring for a disabled individual; victims of domestic violence in immediate threat to their safety; and dependent children.	The following individuals are temporarily deferred from work requirements: a participant who is pregnant is excused during the last two weeks of pregnancy and up to twelve weeks after delivery. Case manager discretion includes cases of domestic violence, health problems, and family emergencies.

Differences Between Subsidized Employment Provisions

Maximum number of participants per employer	None	No more than 10 percent of the employer's workforce. However, it may be waived.
Employee benefits to be provided	Equal to those for new employees or as required by state law, whichever is greater.	Equal to those for temporary employees.
Extensions after six months	May be extended up to additional three months in areas with higher unemployment rate.	May be extended up to additional three months with eight paid hours per week allowed for job search.
Monthly subsidy amount	\$400	\$300
Supplemental payments to participants	Supplemental payments will be made in any month when net wage falls below benefit level.	No provision for supplemental payments.
Wage disregard	All subsidized employment wages are disregarded.	Same
Workplace mentoring	Not specified in legislation as a requirement.	Specified in legislation as a requirement.
Earned Income Tax Credit Notification	Notification is not discussed in legislation but is a part of JOBS policy.	Employers agree to notify and assist project participants regarding the federal earned income tax credit.

APPENDIX B - Program Similarities

Application Process	The same form is used to apply for cash for both programs.
Time Frames	<p>To process the application (interview and determination): 45 days.</p> <p>For participants to provide requested information: 10 days.</p> <p>For agency to notify participant of reductions or closures: 10 days.</p>
Reviews	A review of all eligibility factors will be completed by the agency at least once every six months. Reviews are conducted in the same manner as the initial interview.
Non-financial requirements	<p>Identity of the head of household and relationship to other household members must be established.</p> <p>Verification of residency in the State of Arizona and project areas is required.</p> <p>The participant must cooperate in applying for other forms of public assistance programs or resources that the agency believes may be available to the participant.</p> <p>Citizenship and alien status must be verified prior to the eligibility determination. (If the eligible alien is a sponsored non-citizen, the income and resources of the sponsor will be considered when determining eligibility for the sponsored non-citizen.)</p> <p>A pregnant woman with no dependent children may be determined eligible only during the last three months of her pregnancy.</p> <p>Unwed minor parents are eligible only if they reside with a parent, guardian, or other adult relative. Exceptions to this are when the parent is not able to be located, the minor is emancipated, or would be at risk of physical or emotional harm by returning to live with their parent.</p>

	<p>Adult members are required to cooperate with the Division of Child Support Enforcement and assign their rights to receive support over to the State.</p> <p>Participants who are participating in a strike against their employer will have their eligibility based on their pre-strike gross monthly income.</p>
Resources	<p>Resource limit is \$2,000.</p> <p>The list of excluded resources is the same for both programs.</p> <p>Both agencies impose ineligibility periods when resources on property is transferred (sold) without the household receiving fair consideration based on the value of the item.</p>
Income	<p>The countable, gross monthly income for the family, after the allowance of earned income disregards, cannot exceed 35% of the 1992 Federal Poverty Level.</p> <p>The list of excluded income is the same for both programs.</p> <p>Methods used to project monthly income for participants are the same for both programs.</p>
Benefit issuance	<p>Protective payees are established when the head of the household, due to disqualification or reports received from a protective services agency, can no longer receive and manage the cash payment.</p>
Fraud	<p>Both programs refer suspected fraud cases to the DES Office of Special Investigations (OSI) for investigation.</p>

APPENDIX C - MAXIMUS Associate Survey

Current Position: _____ Date of hire with MAXIMUS _____

Position with DES: _____ Length of time with DES: _____

Were you a union member while working for DES? _____

How many hours a week do you work now? Check one:

30-40 _____ 41-45 _____ 46-50 _____ 51-60 _____

How many hours a week did you work with DES? Check one:

30-40 _____ 41-45 _____ 46-50 _____ 51-60 _____

How does the benefits package (insurance, vacation, etc.) compare? Check one:

Better _____ Same _____ Worse _____

Please indicate which organization (DES or MAXIMUS) provides you with more of the following?

Flexibility _____ Training _____ Supervisor support _____

Please indicate your current level of job satisfaction with MAXIMUS:

Highly satisfied _____ Highly Dissatisfied _____
Satisfied _____ Dissatisfied _____
Undecided _____

Please indicate your previous level of job satisfaction at DES:

Highly satisfied _____ Highly Dissatisfied _____
Satisfied _____ Dissatisfied _____
Undecided _____

Do you feel that you have more or less job security with MAXIMUS? _____

Which *employer* better enables you to provide good service to your clients? DES or MAXIMUS? _____

Which *program* provides better service to its clients? Arizona Works or EMPOWER Redesign? _____

How do you feel toward welfare reform efforts in Arizona? Check only ***one*** of the following:

More reform is needed / Arizona Works should be expanded _____
The system under EMPOWER Redesign was sufficient _____

Reforms have been too tough

What were the most important factors in your decision to work for MAXIMUS?

If there any additional comments that you would like to offer, please feel free to write them on the back of this form.