REGIONAL EMPLOYMENT BOARD OF HAMPDEN COUNTY, INC.
FEE-FOR-SERVICE RESEARCH PROJECT

"First Impressions of Fee-for-Service in the Workforce Development System"

I. Background:

This paper summarizes our first impressions of fee-for-service activities in the workforce development system. It is based on the interviews with thirty-five professionals who work for private industry councils, workforce investment boards, and service delivery areas. These individuals were asked to comment on the definition, operation, opportunities and obstacles in developing and implementing fee for services. They were contacted because of their reputation for either conducting fee for service activities or because we had heard they were seriously thinking about the issue. The impression one gets about fee-for-services based on these responses is likely to be unrepresentative of the entire employment and training system, since this a small survey sample. However a more comprehensive survey of the workforce development system is currently underway.

II. Response Highlights:

Most of the 35 organizations who responded are in fact offering services for a fee!

The most common way fees are being charged are through services to employers for customized services.

Pricing structures fell into three categories:

* based upon market forces (most consider the prices charged by their competition)
* based almost entirely on their costs (w/ a few based on cost plus a percentage)
* negotiated with organizations to whom they are providing services.

Large disparities of income generated from fee-based services were reported: from a gross revenue of $3.5 million over a five year period to as little as $5,000

In most instances, excess revenues are used to expand, enhance, or improve services

Informal marketing strategies are the most common methods used

Reasons for establishing fees varied from:

* responding to customer needs/requests
* need to replace declining federal revenues
* interest in expanding service to those not eligible for federally-funded programs
* interest in promoting economic development and job creation

Principal obstacles to expanding fee-for-service activities were competition from the public and private sector, staff attitudes, and federal regulations

A wide range of policy and operational concerns relating to the further development of

fee-for-service activities need to be addressed

Just about everyone believes that fee-for-service will be expanded in the near future!

III. More Specific Responses

a. Are Organizations Charging Fees-for-Services Today?

Most of those who responded to our survey are in fact offering services for a fee. The most common services including employee training and retraining; recruitment and employment screening; pre-employment assessment; outplacement services; and task and job analysis of existing positions. Several other services were offered by at least one organization. These services included consulting services for employers; resume preparation; employment workshops; the development of labor market information; leasing out staff; professional career counseling; leasing space to other organizations; and, analyzing workers' skills after worker compensation injuries.

b. How is "Fee-for-Service" Defined?

Most respondents defined fee-for-service as charging a fee to an employer for customized services. There were, however, several other interesting definitions including charging fees to jobseekers, providing technical assistance to the service providers; selling administrative services, printing and internet access to the public, and simply generating "unrestricted" or "program" income.

c. How Were Prices Established?

Respondents report the pricing structure for fees fall into three categories. First, prices are based upon market forces. Most consider the prices charged by their competition. Others structure fees based almost entirely on their costs, but a few base their fees upon their costs plus an additional percentage in excess of cost. Finally, several respondents said their fees were negotiated with organizations to whom they are providing services (usually with a base price in mind as determined by market forces and/or agency costs involved).

d. Revenues from fee-for-service.

Respondents report large disparities of income generated from services provided for a fee. One organization generated a gross revenue stream of $3.5 million over a five year period. Another's entire budget is supported from a $2 million fee-for-service revenue stream (this agency started out as a dislocated worker center and evolved into a flexible education/training center). At the other end of the spectrum, some organizations report generating as little as $5,000 or $10,000 in fee for service contracts.

In most instances, any excess revenues that might be generated from charging fees were used to expand, enhance, or improve the services that were provided by the organization. For example, one organization uses the funds to provide services that JTPA doesn't allow, such as offering younger children career services. Another organization upgraded and expanded the skill center and its course offerings. Still another is providing child care assistance to those who need this service.

e. Marketing fee-for-services to job seekers and employers:

Informal strategies are the most common methods for marketing services to employers or job seekers. However, several respondents told us that employers had come to them seeking assistance. Only a few organizations use traditional marketing methods, such as mailing brochures, using the mass media, or soliciting business from potential clients.

f. Why were fee-for-services established?

There seem to be three, somewhat overlapping reasons for establishing fees-for services. First, many organizations were responding to requests from employers or job seekers for a specific service. Second, many respondents said they needed to replace declining federal revenues. Finally, several said that wanted to serve people who aren't eligible for particular federally-funded programs. In addition to these common explanations, a few organizations were looking to develop a pool of funds that did not have federal spending restrictions. Others were interested in programs that would promote economic development and job creation.

g. Major obstacles to establishing fee-for-services

The principal obstacles to expanding fee-for-services, according to our respondents, were competition from the public and private sector, staff attitudes, and federal regulations. For example, several respondents said that the private sector or colleges viewed their efforts as competition. Several others said that it is difficult to change staff members from a "social work" mentality to a "business" mentality. Finally, ambiguity in federal regulations was regarded as a major impediment by many respondents.

h. Principal policy and operational issues

The survey respondents cited a wide range of policy and operational concerns relating to the further development of fee-for-services in the workforce development system. The most frequently mentioned concerns include those listed below (as quoted below):

* "Marketing to current customers who previously received certain services that could now qualify as fee-based."

* "The role of federal and state grant money -- cost allocation of fee income and profits."

* "More agencies need to become independent non-profit entities; they need to get out from under the government structure."

* "Need to establish a separate operational unit to avoid problems w/ federal & state regs."

* "Allow the use of JTPA funds for marketing."

* "There is a big demand for incumbent worker training not permitted under JTPA or other federal programs."

* "Fee-for-service programs need special start-up attention."

* "We're running into problems regarding separate funding sources and our goal of a "seamless" service. The state wants One-Stops to serve everyone in a seamless way, but it has not offered formal waivers."

* "Change the mindset of staff to a competitive business where cost and time matters."

* "Can we be in the fee-for-service business at all? Is there a niche for us? Other service providers -- once allies -- will suddenly become competitors."

i. Will the fee-for-service concept be expanded?

Just about everyone believes that fee-for-service concept will be expanded in the near future. Only three respondents said they did not plan to expand fees for services or were unsure about it. The rest of the respondents are convince that fee-for-services will be a part of their agency's regular menu of services in the future. Several of those who have experimented with fee-for-services are very pleased with the results. Others said that anticipated reductions in revenue will force them into greater reliance on fee-for-services. One respondent said that the PIC is enthusiastic and feels that this is a great opportunity to show how good they really are.