

Final Report

DESIGNING A REDUCED-RATIO PILOT FOR THE ABILITYONE PROGRAM

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Purvi Sevak
David Stapleton

Submitted to:

SourceAmerica
8401 Old Courthouse Rd.
Vienna, VA 22182
Project Officer: Brian DeAtley

Submitted by:

Mathematica
P.O. Box 2393
Princeton, NJ 08543-2393
(609) 799-3535
(609) 799-0005

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Background

The AbilityOne Program uses federal procurement activities help employ workers with disabilities. Nonprofit agencies (NPAs) annually sell more than \$3 billion in products and services to the federal government under AbilityOne, employing 45,000 workers with significant disabilities to do so. SourceAmerica facilitates contracting between NPAs and the federal government, working with nearly 500 NPAs that employ workers with a variety of disabilities to produce goods and services.

The AbilityOne Program is administered by the U.S. AbilityOne Commission (Commission) and governed by regulations that detail the requirements for NPAs to be eligible for AbilityOne contracts. One important regulation, the direct labor hour ratio requirement (DLHR), mandates that at least 75 percent of NPAs' direct labor hours be worked by people with disabilities, including work done for customers other than the federal government.

The high DLHR has been questioned in recent years as current trends in the disability community and policy changes in the Workforce Innovation Opportunities Act (WIOA) encourage employment of workers with disabilities in integrated settings rather than segregated or sheltered settings. The Section 898 Panel on Department of Defense and AbilityOne Contracting Oversight, Accountability, and Integrity's 2018 First Annual Report to Congress (also known as the 898 Report) noted that a 75 percent DLHR makes it difficult for an NPA to maintain an integrated work environment.

Because of these trends and policies, the high DLHR has resulted in reduced referrals to NPAs in recent years. The U.S. Government Accountability Office recently reported that 31 of the 74 state vocational rehabilitation (VR) agencies have reduced the rate at which they refer clients to AbilityOne jobs or stopped referring clients to those jobs entirely because the agencies believe these jobs are unlikely to meet the criteria of competitive, integrated employment.¹ Almost half the agencies reported difficulty in finding jobs for many clients that they otherwise would have referred to AbilityOne NPAs because of the challenges these clients face in the mainstream labor market. Thus, an unintended consequence of the policy emphasis on integrated employment could be reduced employment for some workers with severe disabilities.

In line with its mission to create employment opportunities and choices for adults with significant disabilities, SourceAmerica supports research designed to better understand the implications of changes in policies and programs that are intended to promote such opportunities.² In collaboration with the AbilityOne Commission, SourceAmerica is

¹ United States Government Accountability Office. "Vocational Rehabilitation. Additional Federal Information Could Help States Serve Employers and Find Jobs for People with Disabilities." GAO-18-577. Washington, DC: U.S. Government Accountability Office, September 2018.

² See, for instance, M. Levere, P. Sevak and D. Stapleton, "Policy Changes for SourceAmerica Nonprofit Agencies: Impacts of Eliminating Section 14(c) and Reducing AbilityOne's Required Direct Labor Ratio," Washington, DC: Mathematica Policy Research, May 2017.

seeking to launch and evaluate a pilot project under which one or more AbilityOne contracts would allow the NPA contractor(s) to conduct the work under a DLHR requirement that is less stringent than 75 percent.

A need for more information

Although some in the disability community have called for changes to the AbilityOne regulations to reduce the required DLHR, others have raised concerns that lowering the DLHR would lead to reductions in jobs for people with disabilities. If the aggregate direct labor hours under AbilityOne contracts remained constant, a reduction in the DLHR would necessarily mean fewer hours for people with disabilities, but in theory, the lower DLHR could enable NPAs to pursue activities that expand opportunities. For example, the NPAs might develop new capacity to expand the types of work they perform for all potential customers, or they might be able to devote more effort to helping their workers transition to competitive jobs in other firms. Long-term impacts will also depend on external factors, such as federal procurement decisions unrelated to AbilityOne or changes to other federal and state programs that help people with disabilities.

SourceAmerica and the AbilityOne Commission are interested in learning more about how NPAs would behave if offered the opportunity to have a lower DLHR as well as how that behavior is likely to have an impact on the employment opportunities for workers with disabilities. To learn more, they are launching a small pilot that will involve AbilityOne contract(s) with a DLHR requirement lower than 75 percent. SourceAmerica is not advocating for a change in policy to reduce the DLHR. The limited goal of the pilot is to gain insight into the changes in employment, integration, and production under a lower DLHR requirement. Although this small pilot will not provide all of the information necessary to assess the impacts of changing the AbilityOne DLHR, it will provide valuable information that can inform any future efforts to make such a change.

Design of the pilot

SourceAmerica engaged Mathematica and David Stapleton, an independent consultant, to design the pilot and recommend an evaluation plan. Guided by discussions with leaders at SourceAmerica and the AbilityOne Commission about potential changes to consider in the pilot, questions and outcomes of interest, and practical constraints within the AbilityOne program, we loosely defined some parameters for the pilot.

The purpose of the pilot is limited: to observe how the pilot NPAs behave when the government reduces the DLHR for the pilot contracts and assess how that affects employment opportunities for workers with disabilities. Do the NPAs take advantage of the lower DLHR in ways that promote opportunity for workers with disabilities? Or do they make changes that reduce such opportunities? What are those changes? What are the characteristics of the workers most affected? What are the implications for potential statutory or regulatory changes that could accompany a statutory reduction in the DLHR?

To help inform the pilot’s design, we interviewed 17 leaders from diverse stakeholder groups in and out of the AbilityOne program. SourceAmerica and AbilityOne Commission leaders helped us identify and contact the interviewees. Our goal was to identify the concerns of various stakeholder groups so that we could help plan a pilot that would be informative about their concerns. The interviewees represented NPAs, state VR agencies, federal agencies, and other organizations studying employment or otherwise supporting or advocating for people who are blind, visually impaired, or have disabilities.

We interviewed each respondent for 30 to 60 minutes by telephone. We used a set of questions as prompts for discussion, beginning with whether the respondent thought AbilityOne program should have a DLHR requirement that is lower than the current 75 percent (Appendix A). We asked about a target range or minimum and maximum for the pilot DLHR, other requirements and expectations for the NPA participating in the pilot with respect to wages or integration, and potential challenges or obstacles associated with reducing the DLHR. Before each interview, we told interviewees that we would not attribute their remarks or opinions.

Recommendations for the pilot

Without exception, each interviewee was encouraged that SourceAmerica and the AbilityOne Commission were planning to test a lower DLHR. Although their perspectives reflected their diverse constituencies, and some had more to suggest than others, the suggestions interviewees offered about the design of the pilot had a common theme: substantially lower the DLHR for the pilot contracts with the clear expectation that the pilot NPAs will take advantage of the lower ratio to improve opportunities for workers with disabilities in a substantial fashion. We used the interviewees’ suggestions to formulate the recommendations for the pilot and areas of focus for the evaluation, summarized in Table 1 and described further below.

Table 1. Summary of recommended requirements and areas of focus for the evaluation

Requirements
<ul style="list-style-type: none"> • Maintain a lower DLHR specified for each contract in the pilot, of 35, 45, or 55 percent. • Report worker-level ERS data to SourceAmerica for the duration of the pilot and evaluation • Provide site and staff access to the evaluator for interviews and observation
Areas of focus for the evaluation
<ul style="list-style-type: none"> • The extent to which work under the contract(s) is performed by workers with significant disabilities • Opportunities for workers with significant disabilities to interact with others without disabilities on a regular basis and in a meaningful way • Adoption of equipment and procedures that increase worker productivity

- Opportunities for worker advancement within the NPAs
- Transitions into competitive integrated employment outside the NPAs
- The extent to which jobs under the pilot contracts meet the referral standards of state VR agencies serving the contract areas

Note: ERS is the system that SourceAmerica uses to collect worker-level information from NPAs on a quarterly basis.

DLR = direct labor hour ratio; ERS = Employee Research System; NPA = nonprofit agencies; VR = vocational rehabilitation.

Interviewees support reducing the DLHR for the pilot. Almost all the people we interviewed were comfortable with a DLHR of roughly 50 percent, though one interviewee recommended a DLHR of at least 60 percent and another recommended 30 percent. If multiple NPAs are participating in the pilot, we recommend specifying a different DLHR for each, at 35, 45, or 55 percent. A DLHR in this range balances the dual and sometimes competing goals that most stakeholders held for the AbilityOne program: to provide a greater number of employment opportunities for people with significant disabilities and to increase integration of workers with disabilities. Although interviewees believed reducing the DLHR would enable greater integration, some showed concern that the DLHR reduction would create better opportunities for workers with disabilities within AbilityOne contracts at the expense of fewer employment opportunities overall unless the DLHR reduction is accompanied by substantial increases in the contract opportunities available to the NPAs or to transitions of workers with disabilities from contract jobs to other competitive jobs. Hence, they considered it important for the holders of the pilot contracts to explore use of the work conducted under the pilot to expand transitions of workers to competitive job opportunities or to increase productivity in ways that would expand contract opportunities for the NPA.

Some interviewees believed that a much lower DLHR would dilute the mission of the NPAs and that some NPAs might maintain a higher ratio than required because of their mission. A related argument was that a DLHR that was too low would not justify the competitive advantage the federal procurement process grants NPAs. In general, stakeholders agreed that other requirements could be added to AbilityOne contracts to reaffirm the program's mission under a lower DLHR, but they did not offer consistent specific suggestions for such requirements during the pilot test. **One suggestion made by multiple interviewees was to include all labor in determining the value of the DLR rather than just direct labor.** This suggestion was based on the perception that under the current DLHR requirement, NPAs face a disincentive to promote workers with disabilities to managerial positions. A promotion means that the NPA cannot count that worker toward meeting its DLHR. The interviewees did not, however, provide guidance on a specific value or what share, if any, of the hours in the total labor ratio should be reserved for direct labor.

We also recommend that SourceAmerica require any NPA participating in the pilot to cooperate with critical data collection efforts for the evaluation. Such efforts include

reporting worker-level data to SourceAmerica's Employee Research System (ERS) quarterly for the duration of the pilot and evaluation period. In addition, the NPA should provide site access to the evaluator for purposes of observing site operations and interviewing NPA leaders, supervisors, and workers with and without disabilities.

Although the interviews did not lead to recommendations for other programmatic requirements for the pilot contracts, the interviewees all shared the view that the NPAs participating in the pilot could take advantage of the opportunity to improve employment opportunities for workers with significant disabilities. At the same time, all interviewees were concerned that workers with disabilities might be displaced by other workers. Although most believed that the AbilityOne program serves an important purpose, some expressed concern that the program was built on an outdated model that has not kept pace with changes in technology, law, or business, and that the employment opportunities offered within AbilityOne NPAs were not as attractive as many jobs held by similar people in the competitive labor market. NPAs in a modernized program would have worksites that are more typical of the worksites of other organizations. The focus areas for the evaluation, described further below, reflect both the hopes and concerns of the interviewees.

The extent to which work under the contract is performed by workers with disabilities. As the pilot's lower DLHR would allow the NPAs to have workers without disabilities perform more of the contract's direct work than otherwise, it seems likely that less of the contract's work will be performed by workers with disabilities than would be expected under the current requirement. Some consider this a necessary cost of lowering the DLHR, but one that can be more than offset by other benefits—better opportunities for those with disabilities who work under the contract, potentially including more transitions into competitive jobs outside the NPAs. It will be critical for the evaluation to document the extent to which contract work is performed by workers with disabilities and the characteristics of those workers.

Integration within work units. Although a lower DLHR might be necessary to better integrate workers with and without disabilities, it provides no guarantee. For example, employers could still segregate workers with and without disabilities across tasks. One recommendation for an approach to integration that might still align with the NPAs' mission is to employ more workers from other disadvantaged populations (for example, people with low education or skills, recovering from substance abuse, with low income who are parents, and with criminal histories). Noting the difficulty of measuring integration, several interviewees suggested that the evaluation should consider multiple measures of integration, such as various indicators of social interactions.

Technology upgrades and adoption of more efficient processes. A lower DLHR could theoretically lead to increased productivity for the workers with disabilities if their productive capacity is at least partly a function of the productivity of their colleagues working alongside them and related opportunities to upgrade technologies and processes. Increases in worker productivity would presumably result in more

competitive NPA pricing, higher compensation for workers, or both. By becoming more competitive, the NPAs can potentially obtain contracts for which they previously could not successfully compete. The evaluation should assess the extent to which the NPAs have used the opportunity to increase the productivity of workers with disabilities.

Opportunities for advancement. The lower DLHR may make it easier for NPAs to promote workers with disabilities to administrative jobs that are not counted as direct labor or to support transitions into the competitive labor market. The evaluation should assess the extent to which the pilot NPAs have provided workers with disabilities opportunities to advance that are commensurate with such opportunities for workers without disabilities.

Transitions into the competitive labor market. The NPAs could potentially use the lower DLHR requirement as an opportunity to provide more support for employee transitions into the competitive labor market. The NPAs could, for instance, increase their emphasis on use of contract jobs for training, with subsequent transitions to competitive jobs (including advancement within the organization) when appropriate. Higher transitions to competitive jobs would directly offset any reductions in work performed by individuals with disabilities under the pilot contract. If NPAs successfully place trained workers into competitive jobs, AbilityOne could still touch, or help, as many or more people with disabilities. In essence, the jobs provided under AbilityOne contracts become a larger springboard to jobs with other employers. Hence, it will be important for the evaluation to document the extent to which NPAs use work under the pilot contracts to support transitions to the competitive labor market.

Meeting VR referral criteria. As we noted, many VR agencies have reduced the amount of clients they refer to AbilityOne jobs or stopped referring clients to those jobs entirely because they have concluded, as a matter of policy, that AbilityOne jobs do not meet their own criteria for competitive, integrated employment. An NPA could use the opportunity of the pilot to change its approach in a manner that is more likely to meet the criteria for VR referrals under WIOA. Based on the input we received, this requires not just a lower DLHR but also integrating the work unit, paying workers with disabilities a full (not commensurate) wage, advertising positions without criteria for applicants' disability status, and providing opportunities to advance for qualified workers regardless of disability status. Because each state VR agency differs in its interpretation and implementation of WIOA requirements for placement in competitive, integrated employment, the NPAs with pilot contracts might find it helpful to engage with the VR agency or agencies for the contract area(s). The goal of such engagement could be to gain a better understanding of the criteria the NPA must meet to reinstate VR referrals and, if possible, reach an agreement for reinstatement of referrals. The evaluation of the pilot should assess the extent to which the contracting NPAs were able to use the pilot opportunity to address this issue.

It is important to recognize that the specific nature of any pilot contract as well as the overall circumstances of the contracting NPAs will affect what the NPAs are likely to

accomplish during the pilot. There is no expectation that a specific NPA will behave in all of the ways described above. It will be important for the evaluation to consider NPA performance within the context of the specific opportunities created by a pilot contract and the baseline characteristics and capabilities of the contracting NPAs.

Finally, SourceAmerica should consider establishment of an independent advisory group to support the pilot and its evaluation. Based on the constructive input received from the many interviewees, such an advisory group would help maximize the potential of the pilot and its evaluation to produce evidence that will be useful to policymakers and other stakeholders. The group could include leaders from the AbilityOne Commission, SourceAmerica, the state VR agency and local offices, and frontline staff from the NPAs.

Recommendations for an evaluation

To learn about the NPAs' and workers' experiences with the lower DLHR requirements, we recommend a four-year evaluation period beginning just before the start of the pilot contract. As we noted, the pilot's purpose is to observe how the pilot NPAs behave when the government reduces the DLHR for the pilot contracts and assess how that affects their workers with disabilities. The pilot can provide valuable information that can inform any future efforts to make such a change. Even though it will not provide all the information that would be required to predict the impacts of an agency-wide reduction in the DLHR, it can provide valuable guidance on how to proceed with such a change. Here, we define some broad parameters for an evaluation. When specific pilot contracts are identified, the evaluator should design a more detailed evaluation plan.

The evaluation should address research questions related to the focal areas described above. Table 2 lists preliminary evaluation questions. These must be refined, with details added, for specific pilot contracts. The evaluator can answer many of these questions using quantitative data reported quarterly in SourceAmerica's ERS database. Other questions, particularly those pertaining to integration and interactions with state VR agencies, require collection of qualitative data. We recommend that the evaluator collect this information through a mix of site visits and telephone interviews over the course of the pilot. Although the frequency and schedule can be fine-tuned after the NPAs and contracts are identified, we suggest the following qualitative data collection activities:

- Site visits to the NPAs and the work sites before the launch of the pilot, at 6 and 12 months into the contract, and annually for the remaining duration of the pilot. During these visits, the evaluator would interview NPA leaders and managerial and frontline staff.
- Telephone interviews with leaders of the relevant state VR agencies and staff at the district VR offices before the launch of the pilot and annually for the duration of the pilot.

In addition to a final report with detailed findings at the end of the pilot and evaluation period, interim reports could be useful to Source America and others. The interim reports can inform whether the pilot is being implemented as planned and identify and address challenges or issues as early as possible. We suggest first-year and second-year interim reports along with a final report, following completion of first-year and second-year data collection activities, plus a final report after the completion of third-year data collection.

Table 2. Evaluation research questions

Ratio
<ul style="list-style-type: none"> • What were the NPAs' DLHR during each quarter of the pilot? • What were the NPAs' total labor hour ratios during each quarter of the pilot? • What specific approaches did the NPAs take under the pilot contract to improve job opportunities for people with disabilities in response to the reduction in the required DLHR? • What, if any, were the unexpected consequences of the lower DLHR requirement, both positive and negative? • How, if at all, did the pilot contract affect the income and other support that the NPAs received from various state, local, and charitable entities in the area?
Employment
<ul style="list-style-type: none"> • How many workers with disabilities were employed on the pilot contract during each quarter of the pilot? • What were average weekly hours worked by workers with disabilities on the pilot contract? • What were average hourly wages and non-wage compensation among workers with disabilities on the pilot contract? • What were other characteristics of jobs performed by workers with disabilities under the contract (e.g., the nature of the work itself, the worker's responsibilities, etc.), and to what extent did the lower DLHR lead the NPAs to change those characteristics?
Integration
<ul style="list-style-type: none"> • What steps, if any, did the NPAs take under the pilot contract to increase the extent of integration of workers with disabilities and others? • What was the composition of workers with and without disabilities in each of the work units employed on the contract? • What were the responsibilities of each of the work units employed on the contract? • What were the responsibilities of workers with and without disabilities within each of the work teams? • What kinds of social interactions were typical among and between workers with disabilities and workers and others without disabilities (including people not employed by the NPAs)?
Advancement

- What steps, if any, did the NPAs take under the pilot contract to increase opportunities for advancement among workers with disabilities, both inside the NPAs and via transitions to other employers?
- At what rate were workers with and without disabilities promoted over the course of the pilot?
- What positions at the NPAs did newly hired workers with and without disabilities fill?
- At what rate did workers with disabilities working on the pilot contract leave the NPAs for jobs in the competitive labor market?

Referrals from state VR agencies

- Did the contracting NPAs receive VR agency referrals for the types of jobs performed under the pilot contract before the pilot? If not, did the NPAs take steps toward obtaining such referrals? If not, why not? If so, what steps were taken and did they succeed?
- Did a state VR agency place customers in jobs available at the NPAs under the pilot project? If so, how many and what jobs?
- Did a state VR agency provide funds to support workers with disabilities at the NPAs or to place them into subsequent jobs in the competitive labor market? If so, what was their nature?

DLHR = direct labor hour ratio; NPA = nonprofit agency; VR = vocational rehabilitation.

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Appendix A. Questions to inform the design of a reduced DLHR pilot

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- 1.** Do you think the AbilityOne program should have a lower direct labor hour ratio requirement?
 - a.** Why or why not?
- 2.** What is the maximum direct labor hour ratio that you would consider reasonable?
 - a.** Why do you consider that ratio to be reasonable?
- 3.** What is the minimum direct labor hour ratio that you think justifies the competitive advantage that AbilityOne non-profit agencies receive in federal procurement?
- 4.** What obstacles or challenges do you think a non-profit would face working on a pilot contract with a lower direct labor hour ratio requirement?
 - a.** Can you suggest ways to help them avoid those obstacles or address those challenges?
- 5.** Consider regulations that would set the AbilityOne program's overall direct labor hour ratio at a fixed level – whether the current 75% or a lower rate, but allowed the ratio to vary by contract, where SourceAmerica would determine the allowable ratio, depending on lines of business, market concerns, and other factors. What potential benefits and/or concerns would you have with such a framework?
- 6.** (for VR agency) Since the passage of WIOA and the emphasis on employment in competitive, integrated work environments, many VR agencies have stopped referring clients to non-profit agencies that have AbilityOne contracts. Does your VR agency currently refer clients to non-profit agencies to work on AbilityOne contracts?
 - a.** If no, why not?
 - b.** If sometimes, how do you determine whether you can make a referral to a particular agency?
 - c.** If related to the ratio/integration, what do you think a reasonable ratio would be for VR agencies to consider making these referrals again?
- 7.** (for staff of the Rehabilitation Services Administration) Since the passage of WIOA and the emphasis on employment in competitive, integrated work environments, many VR agencies have stopped referring clients to non-profit agencies that have AbilityOne contracts. What is the maximum ratio of workers with disabilities at a place of employment above which you think VR counselors should not refer clients?
- 8.** (For NPA) Does the direct labor hour ratio limit NPAs in their efforts to procure contracts in the private sector?
 - a.** How would a lower agency ratio affect how you do business, for example how you hire and train staff, or the extent to which you work on non-AbilityOne work?

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