

AN INVESTMENT LETTER FOR MINNESOTA PHILANTHROPISTS

Wednesday, January 15, 2003

This issue covers the return on investment for one of Minnesota's largest providers of training for dislocated workers and troubled youth seeking to enter the workforce. HIRED was founded over thirty years ago by Honeywell Corporation and other private sector firms. Jane Samargia has lead HIRED to its current status as a leading non-profit provider of employment services!

The philanthropic investor in HIRED can deliver returns to the community exceeding 100% in less than three years! The economic benefit to the State of Minnesota is extremely attractive!

WHAT'S THE PROBLEM?

- Despite the recent slowdown in the economy, Twin Cities' employers will face a labor shortage well into the 21st century!
- This is impacted by the fact that our working age population (ages 15-64) will grow more slowly over the next ten years.
- The Minnesota Department of Employment Security reports that Minnesota's workforce participation rate has likely peaked and may decline in future years.
- By 2025 the number of retirement age workers is expected to exceed the number of young replacement workers entering the workforce.
- At the same time thousands of potential employees are currently unemployed due to inadequate employment skills, low education and training levels, personal or family issues or dislocation (being laid off)!
- Many youths are reaching employment age without the skills and knowledge needed to enter and remain in the workforce.

Immense costs to our economy are incurred when large numbers of people are either not in the workforce or are unemployed. These costs include: unemployment insurance benefits, welfare benefits, lost income and sales tax receipts, lower purchasing power, lost productivity, public health costs such as illness, crime, domestic violence and chemical dependency!

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HOW DOES HIRED HELP?

- Now in its 34th year HIRED has served 120,000 adults seeking employment in the Twin Cities! This past year 7,600 job-seekers were enrolled at HIRED and HIRED'S employment counselors placed 3,700 youth and adults in jobs.
- HIRED assists over 1,000 juvenile offenders, homeless teenagers, refugee youth, teen parents and other at risk youth each year. Employment preparation programs increase the likelihood youth will pursue post-secondary training.
- Performance measures include job placements, starting wages, job retention, assignments to vocational training and diploma or GED completion.
- The cost per placement ranges from \$2,000 for a youth placement to \$4,000 for an adult placement.
- HIRED'S "Job Link" is a computerized job posting program currently used by over 3,500 Twin Cities employers and used by over 30 employment and training organizations in more than 50 Twin Cities locations.
- Employment preparation programs have the most significant impact for youth because the programs help to prevent current and future dependence on public assistance.
- Youth employment preparation programs receive the lowest levels of funding compared with other employment programs in our state!
- Teen mothers need more intensive training than adults because they often have no work experience, need to complete their education and learn life and family management skills.
- With additional funding for youth employment preparation, HIRED would invest in prevention by making additional programs available to youth such as living wage career identification and the educational requirements for such careers.
- In addition HIRED would assist in planning and accessing financial aid resources so that post-secondary training can be pursued.
- Additional youth funding would allow HIRED to help kids leave "street life" by providing an additional employment counselor to work one-to-one with homeless and runaway youth at "Project Offstreets in Minneapolis". Such funding would also increase the number of subsidized internship opportunities available to youth.

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WHO BENEFITS?

- US & Minnesota Taxpayers benefit every time an individual moves from dependent status to becoming a wage earner.
- Employers gain skilled and often very highly motivated workers who understand and appreciate the value of work.
- The individual involved has exposure to an entirely new and rewarding life style!

WHAT'S THE RETURN ON INVESTMENT?

Separate ROI calculations have been made for an adult dislocated worker (training cost \$4,000) and a young adult leaving an unhealthy previous life style (training cost \$2,300). Also, experience shows that the dislocated worker would have spent an additional year unemployed and received \$6,000 less in wages without HIRED training. Because of the high volume of clients and placements HIRED per capita training costs are relatively low. A 5% discount rate has been applied to determine the present value of the future stream of tax benefits and criminal justice system savings where applicable.

- **For any investor (philanthropic or governmental) the total system ROI for a dislocated worker is very high exceeding 170% after three years of work (\$10,900/\$4,000)*.**
- **In the case of a young adult previously at the minimum wage the ROI approaches 115% after three years of work (\$5,000/\$2,300)**! Breakeven is reached within the first eighteen months!**

CALCULATING THE RETURN ON INVESTMENT

Assumptions:

Individual Type = Adult Dislocated Worker

Cost Per Placement = \$4,000

Total Earnings Gain = \$6,000/year plus first year gain of \$20,000

Gain from MN Taxes = \$55/\$1,000 of income increase/year

Gain from MN & USA Taxes = \$200/\$1,000 on income increase/year

| Present Values: | <u>30years</u> | <u>15years</u> | <u>10years</u> | <u>5years</u> | <u>3years</u> |
|-------------------------------|-----------------------|-----------------------|-----------------------|----------------------|----------------------|
| Total Earnings Gain | \$115,000 | \$84,000 | \$68,000 | \$47,000 | \$37,000 |
| Gain from MN Taxes (\$343) | 6,000 | 4,500 | 3,600 | 2,500 | 2,000 |

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|-------------------------------------|--------|--------|-------|-------|--------|
| Gain from MN \$ USA Taxes (\$1,248) | 12,000 | 10,500 | 9,500 | 8,500 | 8,000* |
|-------------------------------------|--------|--------|-------|-------|--------|

Assumptions:

Individual Type: Young Adult
 Cost Per Placement = \$2,300
 Income gained from training = \$3.00/hour or \$6,240/year
 Gain from Minnesota taxes = \$55/\$1,000 of income increase/year
 Gain from justice system savings (no dependents) = \$500/year
 Gain from Minnesota & USA taxes & justice system savings (no dependents) = \$1,750

| Present Values: | <u>30years</u> | <u>15years</u> | <u>10years</u> | <u>5years</u> | <u>3years</u> |
|---|-----------------------|-----------------------|-----------------------|----------------------|----------------------|
| Total Earnings Gain | \$96,000 | \$64,000 | \$48,000 | \$27,000 | \$17,000 |
| Gain from MN Taxes(\$343) | 5,300 | 3,500 | 2,600 | 1,500 | 1,000 |
| Gain from MN Taxes & Justice System (\$843) | 13,000 | 9,000 | 6,500 | 3,500 | 2,000 |
| Gain from MN & USA taxes & Criminal Justice (\$1,750) | 27,000 | 18,000 | 13,000 | 7,500 | 5,000** |

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Clearly the state of the art must evolve further to include far more data than currently available if more precise measures of ROI are to benefit Minnesota investors and taxpayers. It is not possible to compare workforce development non-profits with one another because of wide variations in the skill level of individuals served. Other variables not easily compared include differences in training cost assumptions as well as years of continued employment and wage level gains five and ten years into the future. Nevertheless, even after accounting for these shortcomings the returns derived from the basic data published appear high enough to warrant investment by interested philanthropists and government.