

AN INVESTMENT LETTER FOR MINNESOTA PHILANTHROPISTS

Saturday, January 15, 2005

The Jeremiah Program was launched in 1998 with the acceptance of eighteen families into residence. Jeremiah is a leading innovator in providing supportive services to chronically homeless single mothers and their children. Experience shows that these services not only substantially reduce the longer term cost to society of caring for these families but also produce adults prepared for the world of work and children ready to learn. This issue will explore the added return on investment derived by Jeremiah's services to disadvantaged families. In addition this letter will illustrate the range of governmental and social service expense incurred by homeless families who do not have access to supportive housing.

The purpose of "An Investment Letter for Minnesota Philanthropists" is to demonstrate how return on investment calculations can be applied to the private and public financial investments we make in our non-profit organizations. The Jeremiah Program analysis requires that assumptions be made about what social services expense would have been incurred had supportive housing not been available to a family. Fortunately the Twin Cities based Family Housing Fund completed a detailed nine year study in 2002 which lists the range of public intervention costs by sector for a chronically homeless family.

Comparing Jeremiah's costs for over thirty months of support to 39 families with the longer term reduction in public service intervention costs highlighted in the Family Housing Fund report it appears that breakeven is exceeded three years after graduation and by the fourth year the return on investment for the community exceeds 50%. This includes taxes paid by the mother by virtue of her placement in jobs earning an average of \$14.07 per hour after graduation.

WHAT'S THE PROBLEM?

- The Twin Cities continues to have a shortage of shelters for chronically homeless families. Where shelter is available only a few providers offer the type of supportive services that move families out of poverty and into self-sufficiency.
- When single mothers move frequently to obtain shelter their potential to enter and/or remain in the workforce is limited. Longer term effective rehabilitative support will not be available if a social worker has no way of locating the family.
- The chronically homeless incur a host of public sector intervention costs: out of home placement, chemical dependency treatment, criminal justice system encounters, emergency room service and AFDC/MFIP welfare support.
- The initial expense involved with well managed housing programs having quality supportive services is high. However, the longer term payoff to taxpayers from programs like Jeremiah is much higher. Voters and legislators have yet to recognize this fact which remains one of Minnesota's best kept secrets!

COST COMPARISONS WITH AND WITHOUT SUPPORTIVE HOUSING*
(Family Housing Fund Study, December 2002)

<u>Public Service Intervention Costs</u>	<u>Costs Without Supportive Housing</u>	<u>Costs With Supportive Housing</u>
Out of Home Placement For Children	\$99,700	\$ 0
Chemical Dependency Treatment Support	9,000	39,200
Criminal Justice	48,800	0
Hospital/Medical	281,200	38,200
Housing	6,000	52,400
AFDC/MFIP	69,100	69,100
Case Management	54,500	24,200
Child Care	77,500	85,200
Employment	200	2,600
Academic Development	48,600	5,900
Mental Health	0	12,700
Transportation	0	7,600
TOTAL (Nine years)	\$695,200	\$337,100
TOTAL (Annual Average)	\$77,200	\$37,500

* The Family Housing Fund study of 2002 tracked a single mother with three young children over a nine year period. This mother dropped out of school at age 14 because of her addiction to crack cocaine. She could not maintain recovery in treatment, required her foster mother to care for her children, served jail time for drug possession and prostitution and eventually entered a supportive housing community. At this facility she designed a self sufficiency plan that eventually helped her achieve a more stable life.

HOW ARE THE JEREMIAH PROGRAM'S COST SAVINGS CALCULATED?

The analysis begins by adjusting the Family Housing Fund model to attain comparability with the average family served by The Jeremiah Program. Rather than the family of four used in the FHF study Jeremiah's average sized family includes a single mother with one and one half children. Adjusting the FHF study to reflect the smaller family size reduces the FHF average annual cost without supportive services to \$44,500 or 57.6% of the original figure of \$77,200. As it turns out, Jeremiah's per family operating cost of \$42,000 is remarkably close to the adjusted FHF number of \$44,500. To be conservative we have added in general and administrative expenses as well as fund raising costs which raise the per family Jeremiah annual cost to about \$50,000 for the year 2004.

To move families to self-sufficiency Jeremiah provides a safe living environment, advanced day care and child development facilities, access to employment and education and comprehensive life skills education (job seeking and retention skills, communication skills, self-esteem and emotion control, parenting and child development skills, financial responsibility, healthy relationships and sexuality and general health and wellness). Since the application process requires in depth assessment goals can be individualized as the program evolves over the thirty months to graduation.

The financial analysis extends the cost assumptions for a family without supportive housing over nine years as reflected in the FHF study. In addition Jeremiah graduates earn on average \$14.07 per hour which generate conservatively \$2,000 per year in Minnesota tax revenue. Finally, since 27% of revenues are public funds, 58% philanthropic contributions, 11% provided by residents and 4% earned income there is a leveraging impact that benefits both the private contributor and also the tax payer.

- **With a total investment of \$125,000 per family The Jeremiah Program can more than recover its costs three years after graduation (\$141,000/\$125,000) and provide the community with a 50% return on investment four years after graduation (\$188,000/\$125,000).**
- **Minnesota taxpayers (state and federal tax returns) provide 27% of Jeremiah revenues. This leverage permits them to provide the community with breakeven status before the end of the first year following graduation (\$47,000/\$33,750) and better than a 150% return two years following graduation (\$94,000/\$33,750).**
- **The philanthropic investor providing 58% of revenues to Jeremiah can exceed breakeven status for the community two years following graduation (\$94,000/\$72,500) and gain a 150% return four years after graduation (\$188,000/\$72,500).**

Excluded is the per graduate economic benefit to Minnesota of an additional productive worker and the multiplier effect of additional annual spending of \$29,000 per graduate.

CALCULATING THE RETURN ON INVESTMENT*

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	Cum. to <u>Year 9</u>
No Supportive Housing FHF Study** <u>Public Costs</u>	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$405,000
<u>Jeremiah Private Costs</u>	(No costs incurred following graduation after the initial investment of \$125,000 over thirty months)					
<u>Minnesota Taxes Paid</u>	2,000	2,000	2,000	2,000	2,000	18,000
<u>Jeremiah Program System Benefit</u>	47,000	\$47,000	\$47,000	\$47,000	\$47,000	\$423,000

*Year one commences six months after completion of the thirty month program. The above numbers have not been adjusted to reflect their present value. It is assumed that a discount rate reflecting the relatively low level of interest rates would be offset by inflation. All numbers reflect their value in the year 2002 when the Family Housing Fund Study was completed.

**One can certainly question whether the per family ongoing costs cited in the Family Housing Fund study even after adjusting for the reduced size of the average Jeremiah family are appropriate and provide a fair comparison. After all, a longitudinal study of one family is not equivalent to data gathered from a much larger control group. However, the positive returns calculated remain extremely high even if the public sector cost saving estimates are reduced by 50%.

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