

AN INVESTMENT LETTER FOR MINNESOTA PHILANTHROPISTS

October 15, 2002

This is the second in a series of “investment letters” dealing exclusively with workforce development, and its critical impact on Minnesota’s economic health over the next two decades. African American young males represent one of the largest groups of unemployed in the state. Summit Academy OIC is one of the leaders in moving young men with “at risk” backgrounds into the workforce. Gains in earned income and reductions in social service and criminal justice system costs are truly significant.

The philanthropic investor can deliver returns up to and exceeding 100% to the community. The benefit to the state is huge in terms of both dollars and quality of life!

WHAT’S THE PROBLEM?

- The US labor market of 2030 is estimated at 165 million people or a shortfall of 35 million workers according to the Employment Policy Foundation.
- In addition to the need for 12-15 million additional college graduates, the USA will require 15-18 million more workers with vocational or 2-year post-secondary degrees.
- Without basic skills training the gap between have and have not will increase further. The risk as stated by the EP Foundation is a USA moving from the “mass unemployment” of the 1930s to the “class unemployment” of today!
- Only 43% of those African American students entering the 9th grade go on to graduate compared with 87% in the white community metro-wide.
- By far the majority of the African American students are in urban core schools, from neighborhoods that are poor and from families with a single head of household.
- The student often lacks a caring mentor that can help him/her envision a future with a positive life style and the opportunity to earn a living wage.

“My mom didn’t even finish grade school. My brother didn’t graduate from high school. I see where my family is now, and I think about where they would be if they had had an education. That’s why I’m committed to getting my education. I want to show my little sister that it doesn’t matter where we came from or what we’ve been through; we still deserve to succeed in life.”

**Teshinda Richardson, Summit Academy OIC
YouthBuild student and Page Education
Foundation Scholarship winner**

HOW DOES SUMMIT ACADEMY OIC HELP?

- For over thirty years “SAOIC” has provided vocational training, basic education, counseling and job placement services to more than 20,000 people.
- Believing that “the best social service is a living wage job” SAOIC strengthens community by preparing individuals to assume their roles as workers, parents and citizens.
- In fiscal 2001 386 adults were enrolled at SAOIC and 342 adults and 18 young men and women were placed in jobs.
- “Vocational Training” courses are offered in Computer Applications, Pre-Apprentice Carpentry and Office System.
- “The Cisco Networking Academy” is offered with North High School to help students learn to design, build and maintain computer networks. Students may pursue industry-standard certification as a CCNA (Cisco Certified Network Associate).
- “On-Site MFIP Counselors” work individually with students to help them accomplish their goal of economic self-sufficiency. They also assist clients to address potential barriers to training and employment such as transportation, housing and childcare.
- “Job Placement and Retention” specialists help students develop a resume, practice (interview techniques, identify sources of job opportunities and finally find living wage jobs. Contact and training continues after students are placed.
- The Somali Success Program is designed to increase the literacy, life skills and earnings potential of the expanding Twin Cities Somali population. The program placed 111 Somalis in jobs this past year.
- The Quantum Opportunities Program prepares a group of 25 youth of color for post-secondary education. These academically challenged youth must invest 750 after school hours each year evenly divided between academic achievement, community service and personal development.

The Rand Corporation found QOP nationwide to be the “most effective” and “most cost effective” program in preventing crime with each \$1.00 spent saving \$3.86 in social service and criminal justice system costs!

WHO BENEFITS?

- Twin City neighborhoods gain as students conduct neighborhood service projects. The data shows a marked reduction in crime from the QOP program.
- Minnesota taxpayers gain as social service and criminal justice system costs are reduced and as \$8.00 to \$10.50 per hour jobs add to the tax base.
- Minnesota businesses add motivated workers with “street smarts” and a new group of young African American males have a shot at the “American Dream”.

WHAT'S THE RETURN ON INVESTMENT?

For each dollar gain in income from training the State of Minnesota collects \$55 in taxes and the Internal Revenue Service \$145 in added tax revenues. The Minnesota State Planning Agency assumes about a \$500 annual reduction in criminal justice system costs for very low income people who join the workforce. TCOIC is now placing individuals in jobs at an hourly wage of about \$10 per hour or \$20,800 per year. It is estimated that the gain in annual earnings from TCOIC training and placement is about \$10,400 over and above what might have been earned before training.

- **For the philanthropic investor (50% of training costs) the system (State & Federal) reaches breakeven after three years of work and achieves a 100% ROI assuming five years of work (\$11,000/\$5,000)*!**
- **Since the state and federal governments also share 50% of training costs their returns are comparable. They would have a 300% ROI assuming ten years of work (\$20,000/\$5,000)**!**

It is likely that the gain in earnings from TCOIC training exceeds the assumed \$5.00 per hour figure since the data base indicates no previous work experience for many trainees. Also because so many of SAOIC trainees come from troubled backgrounds the estimates which follow with respect to the elimination of criminal justice system costs are likely to be too conservative. On the other hand, the ability to track graduates' future earnings is limited to one year making future earnings assumptions difficult to document. It is likely that most graduates remain in the workforce.

CALCULATING THE RETURN ON INVESTMENT

Assumptions:

Cost Per Placement = \$10,000

Income gained from training = \$10,400

Gain from Minnesota Taxes at \$55/\$1,000 of income increase/year = \$572/year

Gain from Minnesota justice system savings (no dependents) = \$500/year

Gain from US Taxes at \$145/\$1,000 of income increase/year = \$1,508/year

Total gain (MN & USA taxes plus justice system savings) = \$2,580/year

Present Values:	<u>30years</u>	<u>15years</u>	<u>10years</u>	<u>5years</u>	<u>3years</u>
Total Earnings Gain	\$160,000	\$108,000	\$80,000	\$46,000	\$28,000
Gain from MN Taxes (\$572)	9,000	6,000	4,000	2,000	1,600
Gain from MN Taxes & Justice System (\$1,072 & no dependents)	16,500	11,000	8,000	4,500	1,800
Gain from MN & USA Taxes and Justice System (\$2,580 & no dependents)	30,000	27,000	20,000**	11,000*	6,000

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 appear high enough to warrant investment by interested philanthropists and government.

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