

# ***AN INVESTMENT LETTER FOR MINNESOTA PHILANTHROPISTS***

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**Wednesday, January 15, 2003**

*This investment letter opens a four part series on organizations that are helping to reduce the critical shortage of skilled workers facing Minnesota employers over the next several decades. The first to be reviewed is Twin Cities Rise!*

*Founded eight years ago by former General Mills Executive, Steve Rothschild TCR offers a high return on investment to its sponsors. The philanthropic investor can deliver returns up to and possibly exceeding 200% to the community. The State of Minnesota can achieve returns that may approach and perhaps exceed 300%.*

*Rita Blair started at Twin Cities Rise in October 2000. Rita says, "I always talked a lot, but I didn't have anything to say. I didn't have any goals, ambitions, or drive. I was a 43 years-old mother of six who fit the image so many have of welfare recipients. I was on welfare for 24 years or over half my life." In March of 2001 Reliant Energy hired Rita as a call center representative. Within six months she was promoted, with a 24% salary increase.*

*Tevis Celestin studied for over a year with Twin Cities Rise. Tevis says, "I was on my way to death or prison for the rest of my life." In 1955 Tevis ended up in Minnesota instead. "Today I am a network support analyst and that means if your computer's broken, I'll fix it." Tevis was hired by Super Valu in August 1999. Tevis Celestin purchased his first home in 2001!*

## **WHAT'S THE PROBLEM ?**

- Over the next decade Minnesota is likely to experience labor shortages-especially for skilled labor-because of underlying demographic trends.
- The working age population is growing more slowly than in the past as baby boomers exit the work force in increasing numbers.
- Minnesota's labor-force participation rates, already among the highest in the nation, have likely peaked.
- Meanwhile, 40% of Minnesota's workers make \$10.00 or less per hour, the wage needed to barely sustain a family of four
- Underemployed individuals making very low incomes could make-up much of the labor need but they lack the skills needed to meet employer requirements.
- Non profit organizations overwhelmingly serve workers entering low-skilled jobs because government policy prioritizes "work first" versus skill building.

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- There is little funding provided for the intensive preparation required by employers for skilled, living-wage jobs.

### **HOW DOES TWIN CITIES RISE HELP ?**

- Twin Cities RISE! (TCR!) fills a gap in the continuum for training and educating individuals by providing intensive skills training for the hard to employ poor not served by non-profit placement programs or higher educational institutions.
- Its unique market-based training serves the employer as its customer insuring that its graduates fill needed jobs at living wages. Last year graduates averaged starting salaries of \$24,000, up 140% from program entrance.
- TCR!'s impressive retention rate of 85% through twelve months on the job and 79% after twenty-four months beats the experience of its employer customers, insuring that employers save expense from reduced turnover.
- Self development programs focus on Accountability and Empowerment. The ability training to believe in oneself and visualize a future is critical to success.
- TCR! programs focus on class work and personal coaching in personal development like personal responsibility, conflict resolution, negotiation and problem solving.
- Work skills include basic computer training, communication skills, critical thinking, customer service and dealing with change and business growth.
- A Workskills Coach is assigned to each participant throughout training, during the time the applicant seeks a fulltime job and during the entire first year of employment.
- Participants progress through the program in four ten week phases committing to 12-15 hours of training per week. TCR! Serves about 500 participants and is largest job training provider for living wage positions in the Twin Cities.
- Each participant signs a contract committing to one year employment with a TCR customer of their choosing at full wages and benefits.
- TCR's unique financial model insures accountability and outcomes. Employers pay a fee for hiring its graduates, providing part of the revenue to cover costs and insuring that each job is meaningful.

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## **WHO BENEFITS ?**

- The philanthropic investor has a very high return on investment by taking an individual from welfare to a living wage in less than two years.
- Individuals and their families benefit as increased skills lead to living wages and financial stability for the future. The State of Minnesota recovers its costs for an individual with dependents in one year!
- Employers gain better prepared workers, more diversity and significantly reduced turnover costs.

## **WHAT'S THE RETURN ON INVESTMENT ?**

The Minnesota State Planning Agency estimates a return to the state of \$1,200 per year over a lifetime of work for each TCR placement without dependents and \$4,300 for each placement with dependents. These values reflect increased taxes -- both income and sales, reduced public subsidies and other governmental costs. The values are derived from raising an individual's earnings from \$10,300 per year to \$24,000. Federal taxes rise by about \$145 for each \$1000 gain in income. Approximately 60% of TCR placements have dependents. TCR training costs approximate \$25,000 per placement. Roughly 20% of training costs are paid by employers and 20% by the state, therefore, the direct cost to TCR's philanthropic contributor is about \$15,000 per graduate. The present value of future earnings calculated at a 5% discount rate results in the following returns on investment:

- **For the philanthropic investor (60% of training costs) the system (State & Federal) reaches breakeven after three years of work for placements with dependents and five years of work for placements with no dependents. If an individual with dependents works ten years after TCR training, the philanthropic investor has a total system (State & Federal) return on investment of 226% (\$49,000/\$15,000)\*.**
- **The State of Minnesota (20% of training costs) achieves breakeven in one year for placements with dependents and in year five for placements without dependents. If an individual with dependents works five years after TCR training, the return to the State of Minnesota is 280% (\$19,000/\$5,000)\*\*!**

In addition, economists calculate that the economic return to "labor" of \$14,000 would also result in about a \$6,000 addition to Minnesota's Gross Domestic Product. This is exclusive of the estimated \$5,000 of added fringe benefit spending.

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## ***CALCULATING THE RETURN ON INVESTMENT***

### **Assumptions:**

Cost Per Placement = \$25,000

Income gained from training = \$13,700/year

Gain from Minnesota taxes = \$55/\$1,000 of income increase/year

Gain from Minnesota taxes & justice system savings (no dependents) = \$1,253/year

Gain from Minnesota taxes, justice system & welfare (with dependents) =  
\$4,353/year

Total gain including USA taxes (no dependents) = \$3,239/year

Total gain including USA taxes (with dependents) = \$6,340/year

<b>Present Values:</b>	<b><u>30years</u></b>	<b><u>15years</u></b>	<b><u>10years</u></b>	<b><u>5years</u></b>	<b><u>3years</u></b>
Total Earnings Gains	\$210,000	\$142,000	\$106,000	\$59,000	\$37,000
Gain from MN Taxes (\$753)	12,000	8,000	6,000	3,000	2,000
Gain from MN Taxes, & Justice System (\$1,253) (no dependents)	19,000	13,000	10,000	5,000	3,000
Gain from MN Taxes, Justice & Welfare (\$4,303) (with dependents)	66,000	45,000	33,000	19,000**	12,000
Gain from MN & USA Taxes, Justice & Welfare (\$3,253)(no dependents)	50,000	34,000	25,000	14,000	9,000
Gain from MN & USA Taxes, Justice & Welfare (\$6,303)(with dependents)	97,000	65,000	49,000*	27,000	17,000

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***Peter Heegaard, Editor. "An Investment Letter for Minnesota Philanthropists" is published quarterly with the support of the One Percent Club and draws upon the experience of the Charities.***

The state of the art must evolve further to include data currently not 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 initial skill level of individuals served and the level to which they are trained. Other variables include differences in training cost assumptions and years of continued employment and future wage levels. 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.