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This issue will look at public policy observations that have surfaced from the past five letters covering some of Minnesota's leading workforce development organizations. It is important to remember that the primary purpose of "*An Investment Letter for Minnesota Philanthropists*" is to demonstrate how return on investment calculations can be applied to non-profit organizations. This issue concludes with one specific public policy recommendation.

The five organizations reviewed offer very high returns to the broader economic systems after computing the cost of training and relating that to the benefits derived such as higher wages and tax payments, lower social service costs and reduced criminal justice system expenses. The returns calculated do not take into consideration the multiplier effect of higher wages moving through the various spending cycles nor do they reflect the likely possibility that a working person's wages will likely increase overtime if they remain in the workforce.

PUBLIC POLICY OBSERVATIONS

- *The public's investment brings high returns especially when individual philanthropy and foundation support help a particular agency get started and provide ongoing support that applies private sector disciplines to the management processes.*
- *The highest immediate investment returns to Minnesotans comes from programs that move individuals with dependents into living wage jobs. In a 1995 study by the Minnesota State Planning Agency the conclusion was that programs that move individuals with dependents earning \$5.00 an hour to \$10.00 an hour save the state \$4,800 per year!*
- *The highest returns are derived from organizations which tailor their programs to a specific market niche in the workforce development industry. There is a continuum of needs ranging from basic job seeking skills to the more complex soft skills training for individuals from very difficult backgrounds.*
- *Minnesota lacks a coordinated statewide management process dedicated to increasing the number of working people in the state who can support their families on a budget that meets their basic needs. Such a process would link economic development and new business creation, the upgrading of workforce education and skills, incentives to business that offer living wage jobs, incentives in the tax system that help low wage earners move up in earning power and work support essentials such as child care, health care, transportation and housing.*

In a recent study “Growth & Justice” civic organization founder Joel Kramer points out that while real wages in Minnesota have grown somewhat faster than the national average and that while our poverty rate is lower than the national average that average incomes of the bottom fifth of Minnesota households (about 1,000,000 people) have remained unchanged after adjusting for inflation for nearly the past two decades

Because the cost of housing (thirty percent of the family budget) and the cost of health care are rising much faster than inflation these families in effect have lost purchasing power. Government programs have expanded somewhat to attempt to keep up with this growing gap but the gap has widened none the less.

Our understanding of the stress facing lower income families is better understood with a model prepared by the Jobs Now Coalition for Minnesota families. This basic needs budget has no frills but remains well above the poverty level.

Based upon the 1999-2000 data for a single mom with two young children, the basic needs budget requires \$17.76 an hour in the metro area and \$14.76 in greater Minnesota for a statewide average of \$16.36 an hour. For a family of two adults and two children with only one parent working, it's \$16.12 an hour in the metro area and \$12.98 in greater Minnesota for an average of \$14.65. These numbers are lower because there are no child care costs. For two parents working the statewide average would be \$20.76 with each parent having to earn \$11.22 an hour.

Nearly 31% of Minnesota workers earned less than \$10.00 an hour in the year 2000. If they worked 40 hours a week they could not meet half of the income needed to support two kids and two adults at the basic needs level. 55% earned less than \$15.00 an hour, not enough to be a single parent supporting two children. The median wage was \$14.45 an hour a little under what was required to support a family of four with only one working parent!

The Governor's Workforce Council lists 71 workforce programs administered by 11 state and five federal agencies and more than \$500 million of annual spending. The inventory does not include most of what the public spends on the University of Minnesota or the MNSCU system even though they have a profound impact on workforce development. A study done by Anton & Associates concluded that \$1.00 spent funding MNSCU produced \$3.66 of productivity gains for Minnesota workers.

There are a host of national studies funded by foundations that measure the effectiveness of a wide range of workforce development programs. Overall these non-profit based training programs show significant success across a broad range of skill development needs, especially those that involve more intensive, longer term training. However, on balance they serve a very small percentage of the citizens who could benefit from their services.

THE CONCLUSION IS ... THAT PERFORMANCE TRACKING AND IMPROVED LINKAGE CAN PAY BIG DIVIDENDS AND CAN BE IMPLEMENTED BY A PUBLIC-PRIVATE PARTNERSHIP

There are only a limited number of workforce development non-profits that have the capacity to track the world of work performance of their graduates upon completion of training. Some can track performance six to twelve months after graduation and one tracks performance for twenty four months after completion of student training.

The state of Minnesota has the capacity to track incomes through the Department of Revenue, the Department of Economic Security and the Department of Human Services. Other tracking options could simply require graduates of state and philanthropically funded organizations and/or their employers to file a form quarterly for a specified period of time to track their on the job performance. Since they have benefited from state and federal funding in most cases this type of requirement could be agreed to before training for individuals and before job placement for employers.

The benefits of performance tracking and better linkage are many:

- *The return on the public's (individuals/foundations/government) investment in workforce training would be measured with far greater accuracy lending credibility to the benefit of investing now for a much greater benefit to taxpayers in the near and intermediate term future.*
- *Because of the need to measure programs that cover a wide range of workforce development needs (job posting/job seeking skills/soft skill training/self image development/dislocated worker support) we can learn to more effectively match individuals seeking employment to the appropriate range of programs.*
- *Programs serving similar constituencies can be evaluated and managers can learn from one another which training techniques work best for individuals with similar backgrounds and needs.*

Funding for the planning of this type of endeavor could be in the form of a matching grant between the foundation community and the State of Minnesota. Enough data has been gathered to clearly demonstrate that well managed workforce development programs pay huge dividends in future years regardless of the nature of the current economic cycle. The need is especially critical as the size of our workforce shrinks over the next two decades relative to our expanding over sixty-five age group.

Minnesotans regardless of political persuasion agree that a job is the preferred way to increase the number of citizens who can support their families on a basic needs budget. The implications are great when you think of the impact of higher wages on affordable workforce housing, K-12 education and the other essential services families need but that also stretch taxpayer dollars. In addition the multiplier effect on our economy of this additional spending would be huge.

CALCULATING THE RETURN ON PUBLIC INVESTMENT

The returns for five workforce development non-profit organizations follow. Each of these has been reviewed in previous issues of “*An Investment Letter for Minnesota Philanthropists*”. Because there are so many variables involved and the organizations cut across several different workforce industry segments it is not appropriate to compare one non-profit with another.

The benefits from an effective statewide tracking system would be significant! As stated in the earlier issues, the assumptions used are conservative with respect to welfare system and criminal justice system savings. A discounted present value model was used to calculate the numerator of the equation (gain in taxes and reduction in social service and justice system costs) while the denominator in the ROI calculation is based on total cost per trainee actually placed with an employer.

ROI RESULTS FOR INDIVIDUALS & FOUNDATIONS*

<u>Organization</u>	<u>Breakeven Achieved</u>	<u>Year 3</u>	<u>Year 5</u>	<u>Year 10</u>
# 1	9mos.	333%	580%	1150%
# 2	3mos.	infinite (very low pvt. investment)		
# 3	18mos.	125	300	630
# 4	3yrs.	20	100	300
# 5	3yrs.	14	80	226

ROI RESULTS FOR THE STATE OF MINNESOTA*

# 1	20mos.	76%	180%	400%
# 2	30mos.	16	45	109
# 3	3mos.	infinite (very low state investment)		
# 4	3yrs.	20	100	300
# 5	1yr.	140	280	560

* To be conservative, in all cases but one the calculations are made assuming no dependents. With dependents the returns run much higher because of social service cost savings. Organization #5 has a majority of its clients with dependents and the returns are calculated accordingly. Returns are calculated after recouping the initial investment.

The organizations reviewed include Summit Academy OIC, HIRED Inc., Twin Cities Rise, Goodwill Easter Seals and Project for Pride in Living!

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