

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

Tuesday, January 15, 2008

*This investment letter returns to the subject of preparing individuals on welfare for the world of work enabling them to make substantial strides towards self-sufficiency. RESOURCE is one of the Twin Cities leading providers of comprehensive services that empower people to achieve greater personal, social and economic success. RESOURCE “welfare to work” programs serve annually more than 7,000 parents. In this issue we will focus on Hennepin County residents who qualify for MFIP (Minnesota Family Investment Plan).*

***By investing in RESOURCE Hennepin County MFIP programs philanthropic investors and government can recover their cost by the end of the second year and achieve returns exceeding 100% after three years and 300% after five years. The benefit to the state and nation is huge in terms of reduced expenses, increased tax revenues and improvement in our quality of life!***

## **WHAT’S THE PROBLEM?**

- According to the state demographer and state economist Minnesota’s labor force growth is projected to slow to historic lows over the next two decades.
- Aging is the dominant demographic trend in Minnesota, the USA and much of the world. Therefore competition for the future workforce will increase dramatically in the years ahead.
- Options such as exporting jobs, downsizing or reducing growth goals will put added pressure on the state’s budget at a time when many residents are resistant to paying higher taxes.
- Most successful and well managed job skill training programs have not had sufficient funding to move many of the most difficult to train potential workers from welfare to work.
- Public policy thinking has been slow to evolve to a point where investing in future programs that prepare students or prospective workers at all ages for the world of work sits at the top of the public policy priority list.

*“I moved here from Columbia because my mother was living here all alone. I started in the RESOURCE “Career Launch” program. It prepares people to feel comfortable in the US workplace and to know the laws and customs here. They teach accent reduction, personal finance and workplace behaviors and help you discover the right job. Now I am working part time as a loan officer at a mortgage company and have started a design and photography business with a friend.”*

*Olga Carbajal*

## **HOW DOES RESOURCE HELP?**

- It is a multicultural, non-profit organization that operates over 50 specialized programs in the areas of employment and training, chemical health and mental health.
- The staff of 270 members represents a wide range of cultural groups and speaks over 25 languages. It operates out of 34 sites in the Twin Cities metro area plus sites in Duluth and St. Cloud.
- Since its founding in 1960 RESOURCE has provided life-changing services to more than 175,000 individuals. Annually nearly 900 “at risk” youth struggling to survive are served.
- In a typical year the agency assists more than 3,500 laid-off workers and other unemployed or underemployed adults seeking employment and over 7,000 parents on welfare seeking self-sufficiency.
- Nearly 1,500 individuals grappling with substance-abuse problems are assisted most with a history of relapse and many with prison records.
- In the area of mental illness over 2,000 adults are served who are striving to live and participate actively in the community.
- In addition the more than 26,000 children of those served also benefit indirectly from their parents’ success in discovering their potential and achieving their dreams.
- RESOURCE has a special relationship with the US Probation Department to provide cognitive skills training to former inmates. Cognitive skills training has proven to be highly successful in reducing recidivism.
- This past year twenty veterans having physical, chemical or mental health disabilities were served out of the St. Cloud office from Stearns, Benton, Sherburne and Wright Counties.
- Among the special populations served by the Duluth office were low income people, dislocated workers and welfare to work participants living near Virginia, Minnesota.

## WHO BENEFITS?

- Philanthropic investors earn a high return on their investment by taking a family of three off MFIP/AFDC & Food Stamps to a living wage within two years.
- The federal government and state of Minnesota recover their costs within two years and families benefit from increased skills and stability which augers well for a more secure future.
- Minnesota's economy gains badly needed new entrants to the workforce to help sustain future economic growth in the state.

## WHAT'S THE RETURN ON INVESTMENT?

The 271 individuals represented in this study are from one of the most difficult to employ categories, Hennepin County MFIP qualified residents. Training costs average \$10,505 per person. RESOURCE is placing individuals in jobs at an hourly wage of \$10.25 per hour or \$21,320 per year. This same number represents the gain in annual earnings from training and placement since these MFIP individuals were not employed prior to training. After six months following placement on a job 86% of these individuals can be contacted and are still employed at the same or higher wage.

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. In addition once employed. The individual no longer receives MFIP and AFDC grants of \$6,384 per year and Food Stamps totaling \$4,224 each year.

The calculations which follow show the total benefit to the taxpayer from new taxes paid and welfare expenses eliminated. This total is then discounted to reflect a placement rate of 86%. After deducting from the cumulative annual gains the training costs of \$10,505 the final net benefit or value added from training and placement figure is discounted by 5% annually to reflect its present value.

- **For philanthropic investors and government their investment more than breaks even after two years and totals a remarkable 122% after three years and 316% after five years.**
- **Since governments grants and contracts represent about 70% of RESOURCE total revenues and service fees nearly 20% the leverage available to philanthropic investors is very high and therefore their returns greatly exceed those calculated above.**

## CALCULATING THE RETURN ON INVESTMENT

### **Assumptions:**

Family Size = At least one adult and two children with no income before training  
 Cost Per Placement = \$10,505 after one year of training  
 Income gained from training = \$21,000/year (\$10.25/hour)  
 Gain from Minnesota Taxes at \$55/\$1,000 of income increase/year = \$578/year  
 Gain from USA Taxes at \$145/\$1,000 of income increase/year = \$1,523/year  
 Gain from Elimination of MFIP/AFDC cash grants = \$6,384/year  
 Gain from Elimination of Food Stamp Support=\$4,224/year  
 Total gain from taxes and elimination of MFIP, AFDC & Food Stamps= \$12,709/year  
 Total gain reflecting 86% successful placement rate after 6 months on job =\$10,930/year

<u>Period</u>	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>5 years</u>
Total Earnings Gain	-----	\$21,000	\$42,000	\$84,000
Gain from MN Taxes (\$578)	-----	578	1,156	2,312
Gain from USA Taxes (\$1,523)	-----	1,523	3,046	6,092
Gain from no MFIP/AFDC (\$6,384)	-----	6,384	12,768	25,536
Gain from no Food Stamps (\$4,224)	-----	<u>4,224</u>	<u>8,448</u>	<u>16,896</u>
Total Potential Gain	-----	\$12,709	\$25,418	\$50,836
Total Gain (86% Placement Rate)	-----	\$10,930	\$21,860	\$43,720
Net Gain (PV 5%) (After Training Costs)	(\$10,505)	\$385	\$12,882	\$33,180

The state of the art must evolve further to include more data than currently available if more precise measures of ROI are to benefit Minnesota investors and taxpayers. The returns derived from the basic data with respect to RESOURCE appear very attractive and warrant investment by philanthropists and government concerned with the future of Minnesota's workforce and economy.

**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 Review Council of Minnesota, the Minnesota Council of Non-Profits and the Greater Twin Cities United Way. Inquiries may be addressed to: 1035 East. Franklin Avenue, Minneapolis, Minnesota 55404. Tel.: 612 455-5198. Fax: 612 455-5104.**