

AN INVESTMENT LETTER FOR MINNESOTA PHILANTHROPISTS

April 15, 2008

Second Harvest Heartland is the leading provider of food and services to the food banks which serve Minnesota and Western Wisconsin's low income populations. In 2007 it distributed 34.5 million pounds of food or enough to help fill the gap in the monthly food needs of nearly 150,000 people. By investing in Second Harvest Heartland nearly \$7.00 in food value can be generated for every \$1.00 invested because of the leverage resulting from donated food, volunteer time and sound management..

The Sodexo Foundation study of June 5, 2007 estimates the burden (impact cost) of domestic hunger to our economy to be \$76 billion dollars each year or \$2,170 per individual going without sufficient food. It is estimated that Second Harvest Heartland meets about 14% of the monthly food needs of nearly 150,000 needy people for a projected cost savings to the economy of \$304 per person served.

There are at least two ways to calculate the ROI of an investment in SHH. First is the simple calculation that \$1.00 invested generates nearly \$7.00 of food to needy persons. The second is to calculate the estimated \$304 per capita that is saved meeting the needs of 150,000 people for a total savings of \$45.6 million to the economy. On this basis the \$8.4 million of annual investment in SHH would generate better than a 400% return on investment.

WHAT'S THE PROBLEM?

- While not categorized as starving an estimated nearly 35 million Americans go hungry each day seriously impacting their physical, mental and emotional health.
- Currently the federal government spends nearly \$50 billion a year on nutrition programs (food stamps \$33 billion, school lunches \$10 billion; WIC \$5 billion & other \$2 billion). This is about \$12 billion short of the amount that some experts estimate would close the hunger gap in the USA.
- Food stamps generally meet about 20 days of family monthly needs for those eligible and who participate in the program. Food shelves generally cover another 4 to 5 days with families in many cases not able to finance the remaining 5 to 6 days of the month.
- In Minnesota only 57% of those eligible participate in the food stamp program. Time constraints, transportation problems, lack of knowledge and pride are factors that impact usage. Family members have been known to drive to neighboring counties in rural areas to register in order to avoid the stigma of poverty in their local community.
- An estimated \$76 billion cost to our economy from families going hungry is comprised of impaired educational outcomes for children and medical costs for all members including both mental and physical issues that must be dealt with at clinics and hospitals.

HOW DOES SECOND HARVEST HEARTLAND HELP?

- **The organization is dedicated to ending hunger through community partnerships as well as increasing public awareness of hunger.**
- **SHH gathers, stores and distributes donated and purchased food to member agencies (churches/neighborhood organizations) and directly to low income individuals in Minnesota and western Wisconsin.**
- **Second Harvest Heartland distributes 34.5 million pounds of food per year or enough to feed the entire city of Chaska for one year.**
- **SHH estimates the market value of a basket of food at \$1.69 per pound or the equivalent of \$58,300,000 of purchasing power distributed each year.**
- **The average person using a food shelf needs an estimated 234 pounds per year of supplemental food after using their food stamps and their own money. This totals about \$395 per person or in excess of \$1,000 per year.**
- **On average food shelf users make six visits per year and acquire 39 pounds per visit.**
- **The average annual family benefit from food stamps is about \$ 2,250 which together with the \$1,067 average benefit from food shelf services makes it possible for low income families (often less than \$12,000 per year of income) to meet other critical needs.**

WHO BENEFITS?

- **Philanthropic investors earn a high return by leveraging their investment many times over to generate food for needy individuals and an improved quality of life for their community.**
- **The federal government and state of Minnesota more than recover their investment through enhanced educational performance by children and reduced health care costs for family members.**
- **Families who might otherwise slip to a point of no return from mental, emotional and physical health issues remain able to gain self-sufficiency and participate as contributing members of society.**

WHAT'S THE RETURN ON INVESTMENT?

In calculating the return on an investment in SHH the first step is to calculate the annual investment required to generate the amount of food distributed each year. For SHH this number consists of government grants of \$1.9MM, foundation and corporate grants of \$1.9MM, general contributions of \$2.4MM, United Way of .6MM and reinvested earned program income of \$1.5MM for a total of \$8.4MM. This investment generates \$58.3MM of food distributed each year or in effect \$6.94 of sales for every \$1.00 invested.

The next step is to attempt to determine what SHH's contribution is to the savings to the economy and taxpayer that researchers estimate comes from a reduction in hunger. This involves a number of assumptions one of which is that SHH's Minnesota experience is similar to the nations overall experience as illustrated in the study completed by "The Sodexho Foundation in partnership with the Public Welfare Foundation and Spunk Fund, Inc." dated June 5, 2007.

This analysis of the economic cost of hunger estimates that exclusive of the impact of charity hunger costs America \$76 billion annually. The key cost components are illness and psychosocial dysfunction \$66.8 billion and impaired education and lowered worker productivity \$9.2 billion. The Sodexho study estimates that approximately 35 million Americans are impaired by the lack of enough food in their daily diet. Using these assumptions the annual cost to the economy of each "hungry" person is projected to be \$2,171.

SHH meets the needs of nearly 150,000 people each year providing about 4 to 5 days of their monthly food requirements after food stamps and cash purchases. This represents about 14% of a family's monthly needs. Therefore the estimated per capita annual savings to the economy from SHH'S services can be computed by multiplying 14% times \$ 2,171 or a savings to the economy of \$304 per person served each year.

Finally, the totals savings to the economy from SHH's services can be computed by multiplying \$304 times the 150,000 people whose monthly needs are met for a total of \$45.6MM. This total savings number divided by the \$8.4MM invested in SHH each year equates to a better than a 400% return after recapturing the original investment of \$8.4MM.

- Return on Sales $\frac{\$58.3\text{MM Value of Food Distributed}}{\$8.4\text{MM Annual Investment}} = 6.94x$
- Return on Investment $\frac{\$45.6\text{ MM Est. Economic Savings by SHH}}{\$8.4\text{ MM Annual Investment}} = 5.43x$

CALCULATING THE RETURN ON INVESTMENT

Assumptions:

Americans impacted by hunger each year= 35Million

Total annual cost burden of hunger in America= \$76Billion

Value if food distributed annually by SHH= \$58 Million

% of client's monthly food requirements met by SHH= 14%

Clients whose monthly needs are met annually by SHH= 150,000

The economic cost of hunger for SHH clients equals that calculated by the Sodexho study of June, 2007

Calculating the Annual Cost of Hunger in America*

<u>Adverse Outcome</u> (Health)	<u>2005 Direct/Indirect Costs</u>
Migraines	\$1.7 Billion
Colds	0.4
Iron deficiency	0.2
Depression	15.6
Anxiety	9.2
Suicide	6.4
Upper gastrointestinal tract disorder	2.5
Other hospitalization	7.1
Excess cost of other fair or poor health status	<u>23.7</u>
	\$66.8 Billion
<u>Adverse Outcome</u> (Education/Productivity)	
Absenteeism	\$4.2
Grade retention (drop out)	<u>5.0</u>
	\$9.2
<u>Total Cost</u>	\$76.0 Billion

*

The state of the art must evolve further if more precise measures of the ROI on hunger prevention programs are to benefit Minnesota investors and taxpayers. Key assumptions are that the costs of hunger in America based on the comprehensive "Sodexho" study are conservative and that this national data can be applied to Minnesotans served by SHH. Authors of the report are highly qualified leaders in their field and include Dr. J. Larry Brown, Harvard School of Public Health; Dr. Donald Shepard, Brandeis University; Dr. Timothy Martin Brandeis University and Dr. John Orwat, Loyola University.

Editor - Peter A. Heegaard – "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, MN 55404. Tel.: 612 455-5198. Fax: 612 455-5101.