

AN INVESTMENT LETTER FOR MINNESOTA PHILANTHROPISTS

Tuesday, July 15, 2003

You may have heard of the expression that titled a famous publication called “Acres of Diamonds in Your Own Back Yard”. I had planned to end this four part series on some of our leading workforce development organizations when I stumbled across an acre of diamonds in our own back yard. This organization is not always identified as one of the leaders in workforce development. More often we think of it as a place to take our unwanted accumulation of consumer goods.

GOODWILL/EASTER SEALS MINNESOTA has emerged as one of our very high return on investment workforce development centers because of the high percentage of revenue derived from earned income. In fact it is not a recent emerger at all. Goodwill/Easter Seals has been a significant contributor to Minnesota’s workforce for over 84 years. Their programs help people prepare for work, train for employment, obtain jobs, maintain employment, advance careers and connect to community resources. It is another ideal candidate to continue our pursuit of the application of return on investment formulas to the non-profit world.

By investing in Goodwill/Easter Seals “Skills Training” program by the third year of an individual’s employment the State of Minnesota can earn returns exceeding 400% and the philanthropic investor returns exceeding 700%!

Other 2002 highlights of Goodwill/Easter Seals investment return to the State of Minnesota are as follows:

- Goodwill retail stores generated over \$17 million in sales for the Minnesota economy in 2002.
- 11,000 Minnesotan’s were served.
- 600 program participants went to work and 500 gained career advancement.
- \$9.45/hour average starting wage was achieved for skills training graduates.
- Generated more than \$5.8 million in taxable income earned by participants that gained employment.
- Because program service funding is a mixture of government and private grants, fees for service and revenues generated from Goodwill retail stores.....\$4.00 in private funds are leveraged from each \$1.00 received from the State of Minnesota.

HOW DOES GOODWILL/EASTER SEALS HELP?

- **From 14 locations 450 employees provide state-wide services to Minnesotans with disabilities and disadvantages. Paid-work experience is provided in the retail stores and at the corporate headquarters.**
- **More than 4,000 people with multiple barriers to work were served by Goodwill's employment services in 2002.**
- **In addition to the basic career workforce model English Language Learning, mathematics, parenting, life skills, and housing retention classes are provided..**
- **The industry cluster skills training program, developed in partnership with Minnesota businesses, provides curriculum-based and hands on training serving the automotive, construction, retail, banking and financial services industries.**
- **Long term follow-up and support services help both participants and employers.**
- **The community resource staff provides housing resources, retail vouchers for clothing, medical equipment loans and one-on-one assistance.**
- **In 2002 thirty-three public offenders were assisted in their transition from prison to employment. 94% of the participants received placement. Workforce development services for veterans were initiated in 2002.**

Tin Aung came to Minnesota in the winter of 2001 from refugee camps in Thailand after living for 14 years with his family seeking refuge in the jungles of Burma. After coming to Minnesota Tin and his wife began at Goodwill/Easter Seals in the commercial products division. Tin is currently employed at the Salvation Army. "Everybody needs work," says Tin. "I want to set an example for my family. Good families support each other and create good communities.... and that creates a good nation."

WHO BENEFITS?

- *The 600 Minnesotans with multiple work barriers who obtained jobs in 2002 and the 500 Minnesotans who were promoted through Goodwill's career advancement services.*
- *Minnesota employers in the automotive, construction, retail banking and financial services industry.*
- *Minnesota taxpayers as individuals become taxpayers and/or enhance their incomes through career advancement.*

WHAT'S THE RETURN ON INVESTMENT ?

Past analysis and estimates by the Minnesota State Planning Agency indicate an average savings of approximately \$500 per successful job placement from reduction in criminal justice system expenses and \$3,100 in average annual savings from welfare benefits for placements with dependents. The standard tax tables show taxes collected of \$55 per \$1,000 of income earned (State of Minnesota) and \$145 collected per \$1,000 of income earned (USA). Nearly 60% of Goodwill/Easter Seals "Skills Training" graduates and placements have dependents. Government (USA, MN, County, City, School District) funds 29% of "Skills Training" costs while foundations, corporations and other philanthropy fund about 25% of cost with the balance made up of fees and earned income from retail operations. The present value of the stream of future earnings and cost savings is calculated using a 5% discount rate.

- **For the State of Minnesota (29% of training costs including federal grants) break even is achieved by the fifth month of employment for placements with dependents. By the third year of employment the State of Minnesota has a nearly 700% return on investment (\$10,800/\$1,363) for placements with dependents and a 76% return for placements without dependents (\$2,400/\$1,363). The blended return recognizing that nearly 60% of placements have dependents is 445% by the third year of employment.**
- **For the philanthropic investor (25% of training costs) the economic system (State & Federal) has returns that exceed 1,000% by the third year of employment for placements with dependents (\$13,600/\$1,200) and 300% for placements without dependents (\$5,200/\$1,200) With or without dependents the economic system breaks even within the first year of employment.**

CALCULATING THE RETURN ON INVESTMENT

Assumptions:

Cost per placement = \$4,700

Income gained from training = \$7,000/year

Gain from Minnesota taxes = \$55/\$1,000 of income gain/year = \$385/yr.

Gain from MN taxes & justice systems savings (no dependents) = \$885/yr.

Gain from MN taxes & justice systems savings (with dependents)=\$3,985/yr.

Total gain including USA taxes (no dependents) = \$1,900/yr.

Total gain including USA taxes (with dependents) = \$5,000/yr.

Present Values (5%):	<u>30years</u>	<u>15years</u>	<u>10years</u>	<u>5years</u>	<u>3years</u>
Total Earnings Gains	\$108,000	\$73,000	\$54,100	\$30,300	\$19,100
Gain from MN Taxes (\$385)	6,000	4,000	3,000	1,700	1,000
Gain from MN Taxes, & Justice System (\$885) (no dependents)	13,600	9,200	6,800	3,800	2,400
Gain from MN Taxes, Justice & Welfare (\$3,985) (with dependents)	61,000	41,000	31,000	17,000	10,800
Gain from MN & USA Taxes, Justice & Welfare (\$1,900)(no dependents)	29,000	20,000	15,000	8,200	5,200
Gain from MN & USA Taxes, Justice & Welfare (\$5,000)(with dependents)	77,000	52,000	39,000	21,600	13,600

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 completely accurate 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.

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 United Way. Inquiries may be addressed to: 2516 Chicago Avenue South, Minneapolis , MN 55404. Tel.: 612 813-3240. Fax: 612 874-6444.