

AN INVESTMENT LETTER FOR MINNESOTA PHILANTHROPISTS

Tuesday April 15, 2003

Global trade and rapid technological innovations demand that wage earners acquire new skills in a host of service, technical and managerial areas. Two-thirds of employers responding to a U.S. Chamber of Commerce survey indicated that shortages of skilled workers would limit their growth in the years ahead, well above the 27% response in 1993!

This issue completes 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. Project for Pride in Living was founded over thirty-one years ago by community activist Joe Selvaggio.

Initially focused on the issue of affordable housing, PPL has broadened its mission to include employment and job training programs along with the human service support systems necessary to help move families out of poverty and into living wage jobs.

By investing in PPL'S "Train to Work" program the philanthropic investor can deliver returns exceeding 300% to the community by the fifth year of trainee employment. The State of Minnesota can achieve much higher returns because of the very limited state investment in Train to Work.

WHAT'S THE PROBLEM?

- ∞ The US labor market by 2030 is estimated at 165 million people, or a shortfall of 35 million workers, according to the Employment Policy Foundation.
- ∞ In addition to the need for 12-15 million additional college graduates, the USA will require 15-18 million more workers with vocational or 2-year post-secondary degrees.
- ∞ Without basic skills training the gap between have and have-not will increase further. The risk, as stated by the EP Foundation, is a USA moving from the "mass unemployment" of the 1930s to the "class unemployment" of today!
- ∞ Despite the recession and the effects of Sept. 11 on the economy, 23 million net new jobs will be created in the next 10 years if the trends of the last decade continue, reports the EP Foundation.
- ∞ At current labor force participation patterns, the supply of employees will be increasingly out-stripped by the demand for labor to meet the needs of our population.

HOW DOES PPL HELP?

- For over thirty years PPL has helped low-income people strive for self-sufficiency. Recognized nationally by the Department of Labor and others, PPL offers an integrated range of services: job skill training, affordable housing, human support services and education.
- In fiscal 2001, 536 under- or unemployed individuals were served through five programs: *“Train to Work”*, *“PPL Industries”*, *“PPL SHOP”*, *“Press for Success Program”*, *“Hospitality Skills Training Program”* and *“Connections to Work”*.
- *Train to Work* prepares inner-city residents for entry-level positions in the health care industry. Assessment, paid worker training and long term follow-up provide disadvantaged job seekers with the required soft skills. This highly personalized program has an 18-month retention rate of 80%.
- *PPL Industries*, supported by ADC Telecommunications, Hennepin County and other contracts, provides training and light manufacturing work.
- *PPL SHOP* provides warehouse, inventory, customer service and retail job training by selling purchased catalogue surplus and donated office furniture to the public. PPL SHOP has a repeat customer base of 10,000 people.
- *Press for Success* is a collaboration with Minneapolis Community Technical College to train difficult-to-employ individuals in punch press and metal forming, an industry where wages are high and many are retiring.
- *Hospitality Skills Training Program*, in partnership with the Greater Minneapolis Convention and Visitors Association, guarantees a job to each participant who successfully completes training.
- *Connections to Work*, in collaboration with Goodwill/Easter Seals and Whittier Works, is based on the corner of Franklin and Chicago Avenues in the heart of one of Minneapolis’ most disadvantaged neighborhoods. CTW has helped over 600 neighborhood residents move off of public assistance.

Kareem Mohammed began working at PPL Industries in 2001. He enrolled in PPL’s “Press for Success” program and within a few days of graduation had secured a permanent position with Global Tool. Mr. Mohammed is at work each day and is recognized as a valuable employee. Kareem Mohammed says that he values the benefit of being employed in a field that “he can move up in”.

WHO BENEFITS?

- *The Minnesota economy as growth industries are supplied with a steady stream of skilled and motivated entry level employees that have seen their lives change through their own commitment to building a better future for their families.*
- *Minnesota taxpayers as social service and criminal justice system costs are reduced and as \$10.50 per hour jobs add to the tax base. In addition, the Minnesota economy gains added spending power.*
- *Minnesota businesses gain motivated workers with an entrepreneurial spirit who also become consumers and participants in revitalizing their local neighborhoods.*

WHAT'S THE RETURN ON INVESTMENT?

For each \$1,000 gain in income from PPL's *Train to Work Program* the State of Minnesota collects \$55 in taxes and the Internal Revenue Service \$145 in added tax revenues. The Minnesota State Planning Agency assumes about a \$500 annual reduction in criminal justice system costs for very low income people who join the workforce. PPL is now placing *Train to Work* graduates in jobs at an average hourly wage of about \$10.50 per hour or \$21,840 per year. It is estimated that the gain in annual earnings from *Train to Work* is about \$10,930 over and above what might have been earned before training (assume minimum wage at \$5.25/hour). About 60% of PPL's *Train to Work* budget is dependent on philanthropic contributions. The balance comes from government and fees/grants for service performed. Therefore, the philanthropic investor's cost per placement is about 60% of the total training cost of \$5,800 or \$3,480 per placement.

- **For the philanthropic investor (60% of PPL revenues) the economic system (State & Federal) reaches breakeven within the first year 18 months of work (\$3,945*/\$3,480).**
- **The economic contribution (State & Federal) from the philanthropic investor approaches 125% after only three years of work (\$7,812**/\$3,480) and nearly 300% after five years of work (even after assuming no increase in wages over the period).**
- **The return to the state of Minnesota is very high and will greatly exceed that of the philanthropic investor (by a factor of 5 or 6 times) since there is less than \$100,000 of direct aid from government in *Train to Work!***

CALCULATING THE RETURN ON INVESTMENT

Assumptions:

“Train to Work” Cost per Placement = \$ 5,800 (or \$3,480 for the philanthropic investor)

Participant’s income gained from training = \$10,920

Gain from Minnesota Taxes at \$55/\$1,000 of income increase/year = \$601/year

Gain from Minnesota justice system savings (no dependents) = \$500/year

Gain from US Taxes at \$145/\$1,000 of income increase/year = \$1,583/year

Total gain (MN & USA taxes plus justice system savings) = \$2,630/year

Present Values: (5% discount rate)	<u>30years</u>	<u>15years</u>	<u>10years</u>	<u>5years</u>	<u>3years</u>
Total Earnings Gain	\$304,000	\$157,000	\$106,000	\$54,000	\$32,000
Gain from MN Taxes \$601 per year	16,704	8,664	5,848	2,960	1,785
Gain from MN Taxes & Justice System (\$1,101 per year & no dependents)	30,601	15,873	10,713	4,500	2,998
Gain from MN & USA Taxes and Justice System (\$2,630* per year & no dependents)	73,098	37,916	25,591	12,955	7,812**

Clearly the state of the art must evolve further to include far more data than currently 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 skill level of individuals served. Other variables not easily compared include differences in training cost assumptions as well as years of continued employment and wage level gains five and ten years into the future. Nevertheless, 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 Minnesota Charities Review Council, the Minnesota Council of Non-Profits and the One Percent Club. Inquiries may be addressed to: 2516 Chicago Avenue South, Minneapolis, MN 55404. Tel.: 612 813-3240. Fax: 612 874-6444.