
Texas Workforce ROI Estimates: Three Perspectives

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***Return on Investment: The Dollars and Cents of a
Non-profit Program's Worth***

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OVERVIEW

Improves on earlier ROI research by the Ray Marshall Center for the Texas Association of Workforce Boards (King et al. 2003) —

- ROI estimates based directly on *quasi-experimental earnings and related impacts*
- ROI estimated from *participant, taxpayer and societal perspectives*
- Relies on *certified TWC expenditure data*
- Provides both overall returns, as well as *more conventional ROI measures: that is, annualized internal rates of return (IRR)*

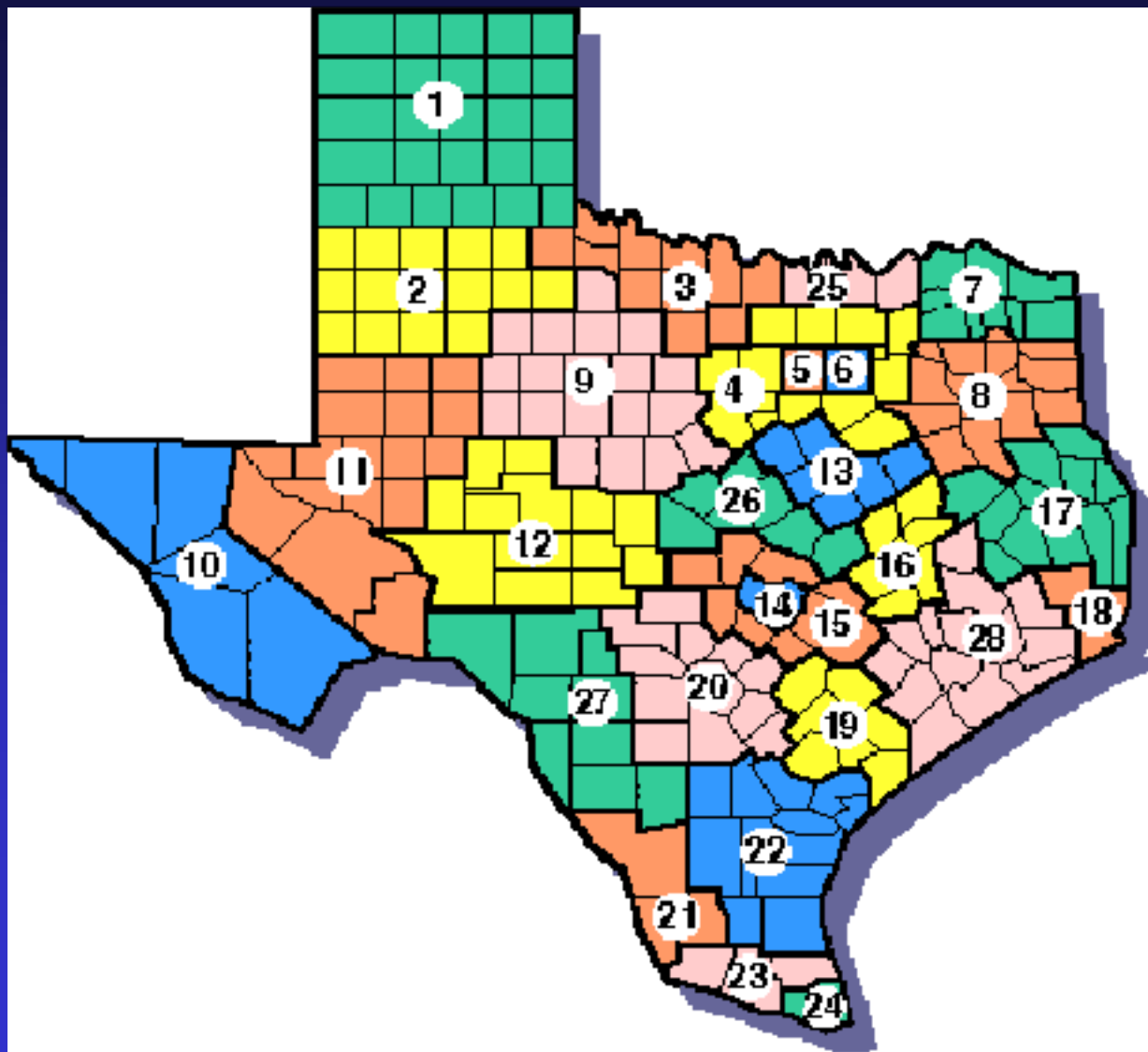
TEXAS WORKFORCE SYSTEM

Distinctive framework v. other states since 1995:

- Most major federal and state *funding streams* largely integrated at state and local level: TWC & 28 local workforce boards. Noteworthy exceptions: adult literacy, community and technical education
- “Portfolio” approach to workforce services locally, spanning WIA, TANF and Food Stamp E&T programs, ES, TAA/Training, VETS, and Project Rio, plus child care. Only Utah more comprehensive.
- Considerable program and policy authority devolved to local level.
- Excellent longitudinal, individual-level data readily accessible by RMC researchers.



TEXAS WORKFORCE SYSTEM MAP



APPROACH

- Workforce funding streams: WIA (excluding Younger Youth), TANF Choices, FSET, Project RIO, TAA, ES, VETS
- Cohorts: 2003-2005 programs
- Time periods: 5- & 10-year post-program
- Strategies: low- & high-intensity services
- Key outcomes: earnings, welfare, UI claims, taxes, employer output/vacancy-days.
- Impact estimation: quasi-experimental (weighted “nearest-neighbor”), plus imputation of fringes, taxes, employer effects
- Opportunity cost: foregone earnings while in program

APPROACH ...

- Decay rates for impacts vary by strategy per the evaluation literature: 100% by end of 2 quarters for low-intensity; none for high-intensity
 - Discount rate: 6.14% since all costs, returns expressed in nominal terms (w/o inflation)
 - Sensitivity analysis: examines varying ROI results as parameters change
- 'Below-the-line' benefits & costs excluded from ROI calculations:*
- corrections savings
 - younger youth education & training impacts
 - impacts from local (non-federal/state) initiatives

CONTEXT

Q: What's a reasonable ROI for comparison purposes?

- **Education returns**: 6-10% annually per year of education, based solely on earnings increases
- **Equity returns**: 15% annually for Fortune 500 firms over long run
- **Workforce services returns**: Rare, but societal returns of \$2.02 per dollar invested for Job Corps, a 202% return (Burghardt et al. 2001). Earlier Ray Marshall Center “first-approximation” taxpayer returns for Texas — using non-rigorous methods — ranged from \$6-\$8 per dollar invested over 5 and 10 years.

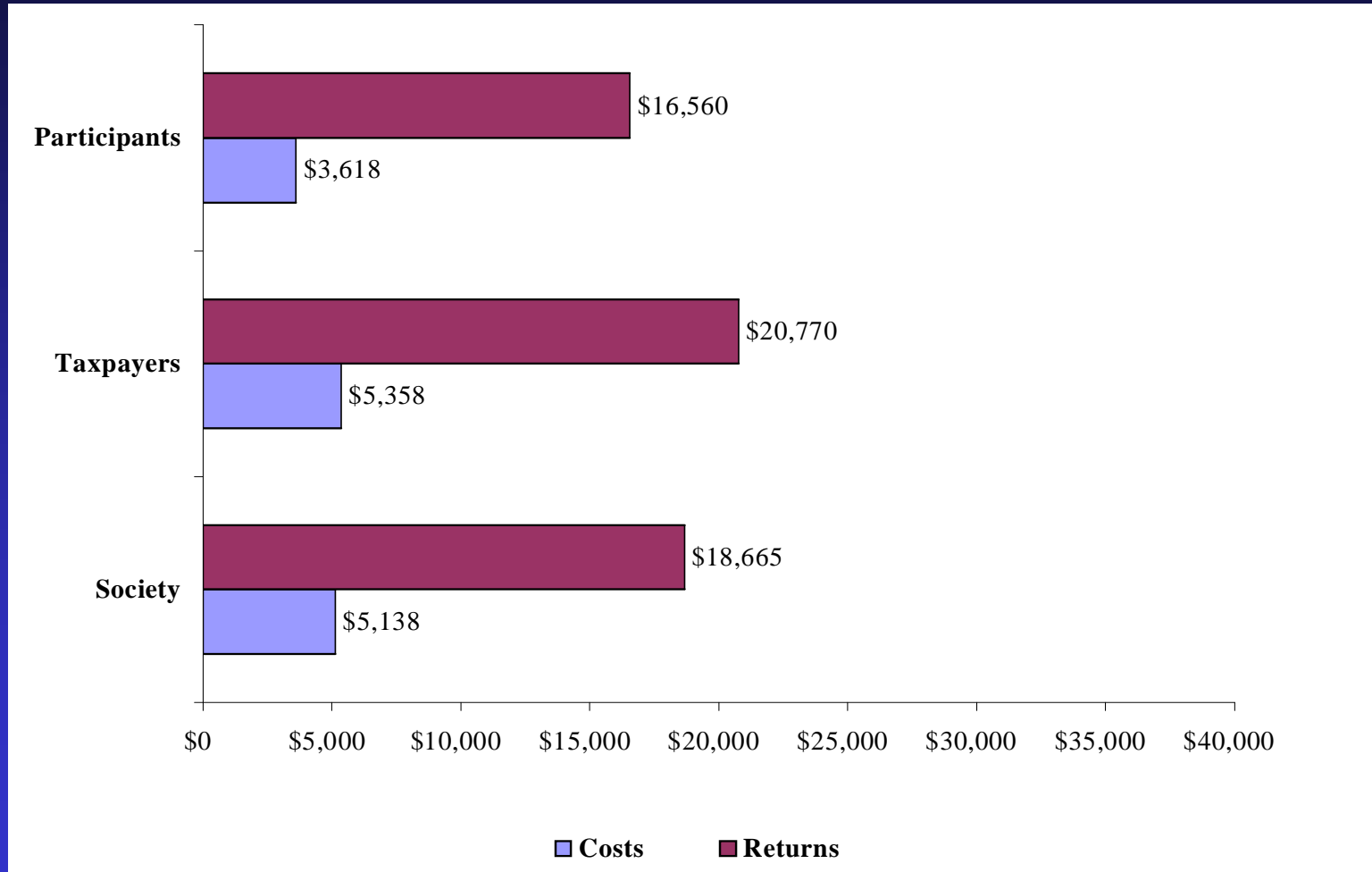
OVERALL & ANNUALIZED RETURNS

5 Year	Costs	Returns	5-Year ROI	5-Year Return
Society	\$5,138	\$18,665	86%	363%
Taxpayers	\$5,358	\$20,770	92%	388%
Participants	\$3,618	\$16,560	113%	458%

10 Year	Costs	Returns	10-Year ROI	10-Year Return
Society	\$5,138	\$32,048	90%	624%
Taxpayers	\$5,358	\$35,778	95%	668%
Participants	\$3,618	\$28,318	116%	783%



5-YEAR RETURNS



10-YEAR RETURNS



ROI ESTIMATES ...

Returns: mostly in the form of increased earnings and fringe benefits, value of increased employer output and reduced vacancy-days.

Costs: mostly in the form of foregone participant earnings (opportunity cost), plus direct program costs.

High- v. low-intensity services: shares of high-intensity vary widely by board. Returns from high-intensity tend to be longer lasting.

SENSITIVITY ANALYSIS

Perspectives & Parameters	Participants		Taxpayers		Society	
	5 Year	10 Year	5 Year	10 Year	5 Year	10 Year
Benchmark Estimates						
1. Employer Output 0.1 X Participant Earnings	113%	116%	92%	95%	86%	90%
2. 50% Employer Benefit Coverage						
3. No Spending Multiplier						
4. Zero Decay for High-Intensity Earnings Impacts						
Employer Output						
● 0 X Participant Earnings	101%	104%	84%	88%	78%	82%
Employer Benefit Coverage						
● 75% Coverage	119%	121%	96%	99%	90%	94%
Spending Multiplier						
● 1.4 X Participant Earnings Only in High-Unemployment Areas	113%	116%	169%	170%	159%	161%
Decay Rate for High-Intensity Earnings Impacts						
● Decay 100% by Year 8	113%	115%	92%	94%	86%	89%

IMPLICATIONS

- *Workforce services pay substantial dividends, regardless of time period or perspective. Policymakers should invest more in such services.*
- Both low- and high-intensity services lead to substantial returns, but *impacts from high-intensity services endure*. Greater investments in skills development a must.
- More work needed to both measure impacts more accurately and capture 'below-the-line' returns.

FUTURE RESEARCH

- Test/refine alternative quasi-experimental methods to produce better impact estimates as ROI “drivers,” particularly at the local board level.
- Incorporate corrections data for improved estimates.
- Explore fuller set of employer impact measures for inclusion.
- Access longer-term outcomes data for improved ROI estimation.

For more, see C. King et al. *Returns from Investments in Workforce Services: Texas Statewide Estimates for Participants, Taxpayers and Society* (2008).