Wilder Research

Economic analysis of workforce programs that could qualify for a human capital performance bond pilot

Executive summary

Introduction

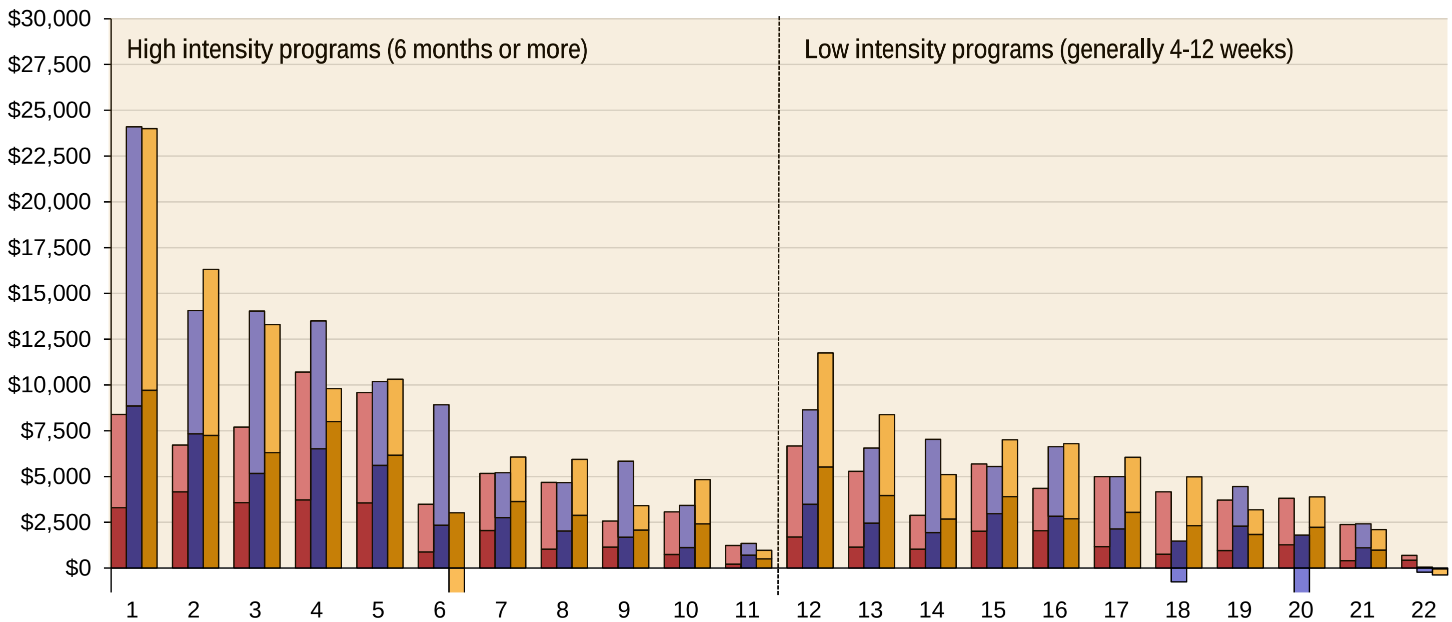
Wilder Research first examined the cash flows and projected savings for a set of workforce programs associated with the Greater Twin Cities United Way. The data set included aggregated placement and 6-month retention rates, wage changes, and criminal background information for 22 metro-area programs. In the absence of data regarding the number and ages of dependents among workforce program participants, we computed cash flows for three types of job placements: 1) one adult, no dependents, 2) one parent with one child age 30 months, and 3) one parent with three children (ages 30 months, 4 years, and 6 years).

Summary of key findings

First-year cash flows of workforce programs

Workforce programs produce cash flows through increased tax revenues due to increased wages of persons placed in jobs as well as due to possible decreases in public assistance payments. The graph below shows the average computed savings and benefits of each workforce program for the three scenarios sorted by level of program intensity.

This graph also shows the state savings in public assistance spending and increased tax revenues relative to the federal savings and increased tax revenues. In general, the high intensity programs produce greater savings and revenue, which accrue to the federal budget, on average, 1.5 times more than to the state's budget.



Red=No dependents
Blue=1 dependent, age 30 months
Gold=3 dependents, ages 30 months, 4 years and 6 years

Dark=State
Lighter= Federal

10-year projected cash flows of workforce programs

Using conservative assumptions that may not capture all the economic value produced for the state of Minnesota from a set of 22 metro-area workforce programs associated with the Greater Twin Cities United Way, we computed for the five highest performing workforce programs the number of additional placements in the first year required to cover the interest, amortization, and administrative costs on a $1 million bond and the number of additional placements required to cover the costs of the bond over 10 years.

To cover the first year costs of a $1 million bond would require an additional 29 placements, or about 6 percent more placements than the 463 placements these five programs had altogether in the past year. However, to cover the bond costs over 10 years would require 29 more placements for a total of 58 additional placements, or about 13 percent more placements altogether than in the past year for the five top performing programs.

Conclusions

The job placement and retention performance of metro area workforce programs suggests that human capital performance (HUCAP) bonds are a feasible way to fund some workforce programs. The state should be able to pay off the bonds based on public assistance and tax benefits saved and increased tax revenues. The federal public assistance savings and tax revenues, 1.5 times greater than for the state, seem large enough to entice federal participation in the pilot.

The programs would have to gauge their placement and retention outcomes against the top performing programs and decide if they have the capacity and right mix of participants to increase their placements by, at most, about 13 percent.

ABOUT HUMAN CAPITAL PERFORMANCE BONDS

Human capital performance bonds are predicated on the assumption that health, education, and social service programs produce social outcomes that have measurable economic value. A clear example is job training programs, which increase state income and sales tax revenues when they successfully achieve employment and wage gains for participants. Other types of programs may not increase tax revenues, but they might save money by reducing costly state spending, such as for repeat incarceration or chronic homelessness. This economic value is equivalent to cash and has the same financial value as cash flow in a business. Accordingly, just as businesses use projected cash flow to finance their current spending, state government could do the same to finance social programs based on their expected future payback.

Invest in Outcomes, led by founder Steve Rothschild, has proposed using state appropriation bonds in a pilot initiative to test this new model for funding programs by rewarding those that successfully meet set performance goals. For every million dollars in bond funding, programs in the pilot would have to generate cash flows of $140,000 per year for up to 10 years to cover the interest (4%), amortization (8%), and administrative costs (2%).

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For more information

This summary presents highlights of the *Economic analysis of programs that could qualify for a human capital performance bond pilot,* prepared for Invest in Outcomes with funding from the Bush foundation. For more information about this report, contact Richard Chase at Wilder Research, 651-280-2706.

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