

AN INVESTMENT LETTER FOR MINNESOTA PHILANTHROPISTS

Tuesday, April 15, 2005

This issue of The Investment Letter deals with the lifetime earnings advantage gained by college graduates over those students who simply complete high school. Specifically, it will focus on students from low income families, predominantly of color, who typically would have no chance of going to college without intervention by a caring and knowledgeable third party. The cost of successfully mentoring these students, the increased probability of their gaining college admission and graduation and the increased lifetime earnings accorded to college graduates are key inputs in determining the return on investment of this type of civic commitment.

Admission Possible was founded in September 2000 to enable students who had never visualized a college education the opportunity of developing the skills needed to gain admission to a four year BA degree institution. It has had a remarkable record in a short period of time and is an excellent candidate to continue our pursuit of the application of return on investment formulas to the non-profit world.

By investing in Admission Possible the philanthropic investor can provide Minnesota taxpayers with a 17% return on investment by the fifth year of a college graduate's employment, by the tenth year a 100% return and over a lifetime (40 years) of work a 500% return!

WHAT'S THE PROBLEM?

- Demographics show a decline in the number of Minnesota college graduates over the next two decades. This has serious negative implications impacting the growth of Minnesota's workforce.
- The only college-age population expected to grow over the next ten to twenty years is that of minority students, including African American and Hispanic students.
- Students from these populations come disproportionately from low-income families where parents likely did not attend college. This poses substantial barriers to their chances of going to college.
- The U.S. Department of Education reports that higher-income students who scored in the top third of a standardized test are five times more likely to attend college than lower-income students with comparable scores.

HOW DOES ADMISSION POSSIBLE HELP?

- **Working with nine high schools in Minneapolis and St. Paul, Admission Possible over a two year academic period provides 550 juniors and seniors from low income families with the tools necessary to gain admission to college.**
- **Critical services offered include: SAT and ACT test preparation, intensive guidance in preparing college applications and help in obtaining financial aid and support in transitioning to college.**
- **Average family income for Admission Possible families is \$35,000. 42% are from immigrant families and 70% are female. 46% are Hmong, 16% African American, 10% Multi Racial, 8% Asian/Non-Hmong, 8% White, 6% Latino, 5% Somali and 1% Native American.**
- **Intensive personal coaching is provided by 12 full-time and 40 part-time mentors who meet with the same group of juniors and seniors two afternoons per week for two hours over a two year period. Personal coaching continues over the summer with students expected to apply for a summer enrichment program.**
- **Ka Ying Xiong was an Arlington High senior who worked two years with Mike Womack a senior in Metropolitan State University's urban teaching program. Mike helped her explore a range of majors. "He's like a big brother." She says. "He's in college, so he's telling us how to prepare for it."**
- **Admission Possible utilizes Americorp Vista "coaches" to deliver its services. "Coaches work with teams of ten students at each high school over the two year period. In total students participate in approximately: 60 hours of group ACT preparation, 50 hours of group admissions and financial aid counseling, 25 hours of one-on-one admissions and financial aid counseling and 40 hours of college visits.**
- **College graduates on average have lifetime earnings of \$2,000,000 (\$50,000/year) compared with high school degree only wage earners with lifetime earnings of \$1,200,000 (\$30,000/year).**

WHO BENEFITS?

- *The more than 200 high school graduates per year from low income families and predominantly students of color who would likely not have had a chance for a college degree without Admission Possible support and sponsorship.*
- *Minnesota employers who face a critical shortage of skilled workers over the next two decades.*
- *Minnesota taxpayers as individuals become taxpayers and/or enhance their incomes through career advancement.*

WHAT'S THE RETURN ON INVESTMENT ?

Studies are available from reliable sources pointing out the financial advantage of a college education. Admission Possible has the benefit of a study conducted by the Wilder Foundation that documents the increased chances of a student gaining college acceptance because of their mentoring efforts. First, the cost per student successfully placed in college of about \$3,000 is derived by dividing the entire annual budget of AP by the number of students placed. Next the financial advantage to taxpayers from one net student addition to higher education must be calculated. Studies show that the lifetime earnings of a college graduate are \$800,000 higher than for those only graduating from high school. Wilder Foundation research documents that AP students have a 48% higher chance of getting to college than non AP students. The current graduation rate from Minnesota higher education institutions is 52% for all students. The estimated federal and state tax rate for AP graduates coming from lower income families is estimated at 15%. By taking the present value of the added lifetime earnings of an AP student, times the tax rate, times the 48% increased likelihood of college admittance, times the 52% Minnesota higher education graduation rate we can derive the value added to taxpayers from the Admission Possible experience. This number divided by the cost per student successfully placed in college permits the ROI to be calculated. The Admission Possible budget is 90% funded by philanthropic sources.

- *Assuming a 2.50% discount rate the investors in Admission Possible provide a 500% return to the community over a forty year period (\$19,000/\$3,000), a 100% return over ten years and a 17% return over five years.*
- *Assuming a 5.00% discount rate the investors in Admission Possible provide a 300% return to the community over forty years (\$13,000/\$3,000), a 93% return over ten years and an 8% return over five years.*

The numbers do not reflect reduced medical and social costs associated with college graduates nor their added production and consumption value to the economy.

CALCULATING THE RETURN ON INVESTMENT

Assumptions:

- (1) Cost per student placed in college = \$3,000
- (2) Likelihood of college participation by a MN. high school graduate = .31
- (3) Likelihood of college participation for an Admission Possible student = .79
- (4) Increased likelihood of college participation by an Admission Possible student = .48
- (5) Graduation rate (6 years) for Minnesota higher education institutions = .52
- (6) Lifetime earnings of a USA high school graduate (\$30,000/yr.) = \$1,200,000
- (7) Lifetime earnings of a USA BA degree college graduate (\$50,000/yr.) = \$2,000,000

	<u>40years</u>	<u>30years</u>	<u>20years</u>	<u>10years</u>	<u>5years</u>
Earnings Gain from BA Degree	\$800,000	\$600,000	\$ 400,000	\$200,000	\$100,000
USA & MN Taxes Paid (15% combined rate)	120,000	90,000	60,000	30,000	15,000
Present Value of Taxes Paid (5yr. AAA Municipal Bond @2.50%)	75,000	63,000	47,000	26,000	14,000
@5.00%)	51,000	46,000	37,000	23,000	13,000
Tax Advantage from Admission Possible Students (.48 X .52)	30,000	22,500	15,000	7,500	3,750
@ 2.50 discount rate	19,000	16,000	12,000	6,600	3,500
@ 5.00 discount rate	13,000	11,500	9,300	5,800	3,250

(1) AP budget divided by successful annual placements; (2) "Post Secondary Education Opportunity", December 2004; (3) Wilder Research Center, December, 2004 ;(4) Item (3) minus (2); (5) Citizen's League of Minnesota Higher Education Report, November, 2004; (6) & (7) "Postsecondary Education Opportunity", November, 2003.

Not included in the analysis is any marginal cost to taxpayers for college tuition in the event that government subsidies are required. On the other hand, the economic impact of the enhanced value of the production skills offered by a college education and the increased purchasing power from the attendant higher income have not been factored into the value added by Admission Possible graduates.

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