

A group of stylized, light-colored silhouettes of people in various walking poses, set against a solid orange background. The silhouettes are arranged in a loose, overlapping group, suggesting a crowd or a group of individuals in motion.

MDRC Working Paper

COST ANALYSIS OF
THE MINNESOTA
SUBSIDIZED AND
TRANSITIONAL
EMPLOYMENT
DEMONSTRATION

OPRE Report 2019-108

November 2019

The Subsidized and Transitional Employment Demonstration: Cost Analysis of the Minnesota Subsidized and Transitional Employment Demonstration

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Overview

Introduction

The Minnesota Subsidized and Transitional Employment Demonstration (MSTED) is testing the effectiveness of subsidized employment for individuals enrolled in the Minnesota Family Investment Program (MFIP), Minnesota's Temporary Assistance for Needy Families program, who were unable to find employment after participating in the state's existing welfare-to-work program. MFIP employment counselors, who work with adults expected to meet the federal work activity requirements while receiving cash benefits, referred individuals struggling to find employment to MSTED. MSTED placed participants into two different types of subsidized employment based on their job readiness: Participants who were less job ready were placed in temporary paid work experience in the nonprofit and public sectors, and participants who were more job ready were placed in subsidized jobs in the private sector designed to roll over into unsubsidized permanent positions. The primary goal of the program was to move participants into unsubsidized employment.

To learn about the program's effects and costs, the Administration for Children and Families in the U.S. Department of Health and Human Services funded a random assignment evaluation of MSTED, in which individuals were randomly assigned to a program group that had access to MSTED services or to a control group that did not have access to MSTED services but could receive other welfare-to-work services. In the first year after random assignment when program group members who had been placed in subsidized employment were still receiving subsidized wages, program group members were more likely than control group members to have been employed. However, by the end of the second year after random assignment when subsidies had ended, program and control group members were employed at similar levels.

This paper presents the per-person cost of MSTED, as well as the costs of other services that all sample members may have received:

- **MSTED services:** Participants who were assigned to the program group were offered MSTED services. These services included working with job developers who assessed their job readiness; provided any needed job-readiness support, including connecting them to workshops and one-on-one training; and helped them find subsidized employment. The program paid for the subsidized portion of participants' wages.
- **MFIP services:** Both program and control group members were enrolled in MFIP and received some level of employment services from MFIP employment counselors. They also received funds for child care and supportive services through MFIP.
- **Education and training services:** Some participants fulfilled the MFIP work activity requirements by participating in education or training services. These services were not typically paid for by MSTED or MFIP providers but were paid by outside agencies.

This study is part of a larger demonstration funded by the Administration for Children and Families in the U.S. Department of Health and Human Services, called the Subsidized and Transitional Employment Demonstration (STED), which is testing various subsidized

employment strategies in several locations across the country. Longer-term findings from all STED random assignment evaluations are included in a separate synthesis report, while earlier findings discussing the implementation of MSTED and its early impacts are in a separate interim report.

Purpose

The purpose of the cost study is to determine what it cost to provide MSTED services to a single program group member once MSTED had reached a steady state of operation. The analysis estimates the costs per sample member in three categories: MSTED costs, MFIP costs, and education and training costs.

Key Findings and Highlights

- The cost of MSTED program services averaged \$5,442 per program group member. Program group members received an average of \$654 in subsidized wages.
- The cost of MFIP employment services averaged \$485 per program group member and \$1,010 per control group member, and the cost of supportive services and child care accessed through MFIP averaged \$6,234 per program group member and \$6,609 per control group member.
- Education and training costs averaged \$1,393 per program group member and \$1,581 per control group member.
- The net cost, the difference between the total program group costs and the total control group costs, averaged \$5,009 per program group member.

Methods

The cost of MSTED was assessed using program expenditure reports, program survey data, and public data sources. The cost of MSTED program services were estimated by summing direct program expenditures and dividing by the number of program group members. To estimate the cost of MFIP services and education and training services, the research team first determined the unit cost, or the cost of serving one person for a specific unit of time (for example, one month). Multiplying the unit cost by the average length of time sample members received each service gives the average cost incurred per sample member.

Acknowledgments

This working paper would not have been possible without the support of many individuals and organizations. The Subsidized and Transitional Employment Demonstration (STED) is conceived and sponsored by the Administration for Children and Families in the U.S. Department of Health and Human Services. Dedicated staff members in that agency have been instrumental to the success of the project, in particular Girley Wright and Erica Zielewski. Mark Fucello and Peter Germanis also provided insightful recommendations on drafts of this working paper.

We are tremendously grateful to staff at the Minnesota Department of Human Services, including Tria Chang, Erika Martin, Deborah Schlick, Kristen Boelcke-Stennes, and Erika Nicholson, with whom we enjoyed a productive collaboration throughout this project. In addition to developing Minnesota STED (MSTED), they supplied the research team with critical program participation and cost data. We would also like to acknowledge and thank the many staff members who operated MSTED and the county staff who oversaw its delivery.

At MEF Associates, Mary Farrell made valuable contributions to this working paper. At MDRC, Johanna Walter and Ali Tufel provided thoughtful comments on several drafts of this working paper, and Jillian Verillo capably managed the paper's production; Christopher Boland edited the paper and Carolyn Thomas prepared it for publication.

Finally, we extend our deep appreciation to the women and men who participated in the study and gave generously of their time to respond to surveys and participate in interviews and focus groups.

The Author

Introduction

Recipients of Temporary Assistance for Needy Families (TANF) often face barriers such as limited education and work experience, health issues including substance abuse problems, felony convictions, and other obstacles that stand in the way of finding employment. In an effort to help these individuals gain work experience, boost their earnings, and eventually find permanent employment, some states, including Minnesota, have launched programs that use public funds to temporarily subsidize individuals' wages, known as subsidized employment programs.

Minnesota's TANF program, called the Minnesota Family Investment Program (MFIP), refers eligible adults receiving cash assistance to MFIP employment service providers — primarily nonprofit organizations — for case management, job-readiness services, and support services intended to help recipients find and keep a job. In 2014, despite having access to these services and Minnesota's strong labor market, some MFIP recipients were unable to find employment. The state funded the Minnesota Subsidized and Transitional Employment Demonstration (MSTED) to improve the employment outcomes of MFIP recipients. Minnesota's Department of Human Services requested proposals from all counties and funded MSTED in three of them: Ramsey, Dakota, and Hennepin counties, which operated MSTED from November 2014 through December 2016.¹

MSTED was designed to improve the employment outcomes of MFIP recipients by placing participants into two different types of subsidized employment based on their job readiness. To test the effectiveness of this strategy, the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services funded a random assignment evaluation of MSTED, in which individuals were randomly assigned to either a program group that had access to MSTED services or a control group that did not have access to MSTED services but could receive other welfare-to-work services.

This evaluation is part of a larger demonstration called the Subsidized and Transitional Employment Demonstration (STED). In addition to MSTED, STED includes random assignment evaluations of six other subsidized employment strategies around the country. MDRC, a nonprofit, nonpartisan research organization, is leading the project under a contract with ACF, along with its partner, MEF Associates. Longer-term findings from all STED random assignment evaluations are included in a separate synthesis

¹Ramsey and Dakota counties began operations in November 2014, but Hennepin County did not begin operating their program until June 2015.

report,² while earlier findings discussing the implementation of MSTED and its early impacts are in a separate interim report.³

This paper presents the per-person cost of MSTED, as well as the costs of other services that all sample members may have received, including the cost of MFIP services and the cost of any education and training services that participants received. It begins with a description of the program and services offered to program and control group members and a discussion of the program's impacts, followed by a description of the methodology and data sources used to estimate the costs. Finally, it presents an estimate of the cost of services for the program group and the difference in the cost of services provided to program group members, relative to the control group.

Services Offered to Sample Members

Each of the three counties that were selected to operate MSTED entered into contracts with one or two providers to deliver MSTED services. All three providers were also MFIP employment services providers and thus had experience running programs serving MFIP recipients. In all counties, however, MSTED was separate from the providers' MFIP programs.

MFIP employment counselors, who worked with adults expected to meet the federal work activity requirements while receiving cash benefits, referred individuals to MSTED. Participants who were assigned to the program group were offered the opportunity to enroll in MSTED services and, while they remained enrolled in MFIP, their participation in MSTED counted toward their required work activity hours. MFIP employment counselors continued to monitor program group members' participation and assist with support services such as child care and transportation.

Shortly after individuals were randomly assigned to the MSTED program group, they met with an MSTED job developer, who worked with them to help them find a subsidized employment placement in one of two subsidized employment options:

- Participants who were less job ready and needed to improve their workplace skills were placed in **paid work experience** positions at a public agency or nonprofit organization. Participants earned fully subsidized wages of \$9.00 an hour for up to 24 hours a week, for up to eight weeks.
- Participants who were more job ready were placed in **subsidized jobs** with a private employer, where they could earn subsidized wages of up to \$15 an hour for up to 40 hours per week. Wages were 100 percent

²Cummings (forthcoming).

³Farrell and Webster (forthcoming).

subsidized for the first eight weeks, and the subsidy was reduced to 50 percent for an additional eight weeks.

Job developers at the MSTED providers worked with participants to determine which of the two tracks they should be placed in and to generate job leads. Job developers were also expected to establish relationships with employers interested in participating in MSTED. MSTED providers also offered job-readiness and job search training, helping participants prepare for their job search through some combination of work readiness workshops and one-on-one assistance.

Those assigned to the control group received a \$100 gift card and could continue to access employment services through their MFIP provider; they could work with employment counselors to create an employment plan detailing the number of hours they must participate in required work activities, including structured job-readiness classes, independent job search, postsecondary education or training, and adult basic education. They did not, however, have access to subsidized employment opportunities or other MSTED services.

MSTED's Impacts

To assess to what degree MSTED affected the kinds of services the program group received and to what extent these services improved their employment outcomes, the research team looked at employment and earnings data from the National Directory of New Hires one to two years after random assignment and survey data from one year after random assignment for both the program group and the control group.⁴ Some of MSTED's impacts on service receipt and employment outcomes, shown in Table 1, are discussed below, but a more complete discussion can be found in the interim and final synthesis reports.

- **Despite a high percentage of control group members who received employment services from MFIP, MSTED increased the receipt of these services.**

All individuals in the study (including control group members) were expected to participate in work activities as a condition of receiving MFIP benefits, and it was not surprising that a high percentage of control group members (78 percent) reported receiving help with finding or keeping a job. However, 88 percent of the program group reported receiving these services, resulting in an impact of 10 percentage points. Program group members were less likely to attend postsecondary education programs than

⁴Unless otherwise indicated, all impacts discussed in this report are statistically significant, with p-values less than 0.10 — meaning that there is less than a 10 percent chance that the observed impacts were not a result of the program.

Table 1

MSTED Impacts on Service Receipt and Employment Outcomes

Outcome	Program Group	Control Group	Difference (Impact)	90 Percent Confidence Interval
Year 1 (self-reported outcomes) (%)				
Received help related to finding or keeping a job	88.4	77.9	10.4 ***	[5.0, 15.9]
Participated in education and training	35.4	33.8	1.6	[-5.1, 8.4]
ESL, ABE, or high school diploma or equivalency classes	11.4	7.8	3.6	[0.0, 7.2]
Postsecondary education leading to a degree	9.2	16.6	-7.5 **	[-12.3, -2.6]
Vocational training	20.9	16.5	4.3	[-1.2, 9.9]
Sample size (total = 532)	259	273		
Year 1 (administrative outcomes)				
Employment (%)	86.7	80.4	6.3 **	[2.3, 10.4]
Participated in MSTED subsidized employment	32.7	N/A		
Total earnings (\$)	7,078	6,628	449	[-305, 1,203]
Subsidized earnings	650			
Year 2 (administrative outcomes)				
Employment (%)	83.7	81.7	2.0	[-2.3, 6.4]
Total earnings (\$)	11,397	10,602	794	[-494, 2,083]
Sample size (total = 798)	403	395		

SOURCES: MDRC calculations based on quarterly wage data from the National Directory of New Hires, MSTED subsidy payment records, and responses to the 12-month survey.

NOTES: ESL = English as a Second Language; ABE = Adult Basic Education.

Results in this table are regression-adjusted, controlling for pre-random assignment characteristics.

Statistical significance levels are indicated as follows: *** = 1 percent; ** = 5 percent; * = 10 percent.

control group members, perhaps because some control group members elected to pursue education to fulfill their MFIP participation requirements.

- In the first year after random assignment, and into the first quarter of the second year, program group members were more likely than control group members to have been employed. However, by the end of the second year after random assignment, program and control group members were employed at similar levels.**

According to administrative records, 86.7 percent of the program group worked in the year following random assignment, compared with 80.4 percent of the control group, resulting in an impact of about 6 percentage points. In the first quarter of the second year after random assignment, a time when few program group members were

employed in paid work experience or subsidized jobs, program group members were more likely to be employed. However, by the end of the second year, program and control group members were employed at similar levels.

Methodology and Data Sources

This analysis tries to determine what it cost to provide MSTED services to a single program group member once MSTED had reached a steady state of operation. As such, the analysis excludes any start-up costs associated with implementing the program.⁵

This analysis estimates the costs per sample member in three categories, shown in Figure 1: MSTED costs, MFIP costs, and education and training costs. To determine the cost per sample member for each service within the latter two categories, the research team first determined the unit cost, or the cost of serving one person for a specific unit of time (for example, one month). Multiplying the unit cost by the average length of time sample members received each service gives the average cost incurred per sample member. All costs have been adjusted to 2016 dollars for this analysis.

MSTED Costs

Summing direct program expenditures from January 2015 through December 2016 for each county and dividing by the total number of program group members provides a per-person cost of MSTED program services. The total cost of MSTED includes the subsidized wages paid to participants, which were estimated from payroll records.

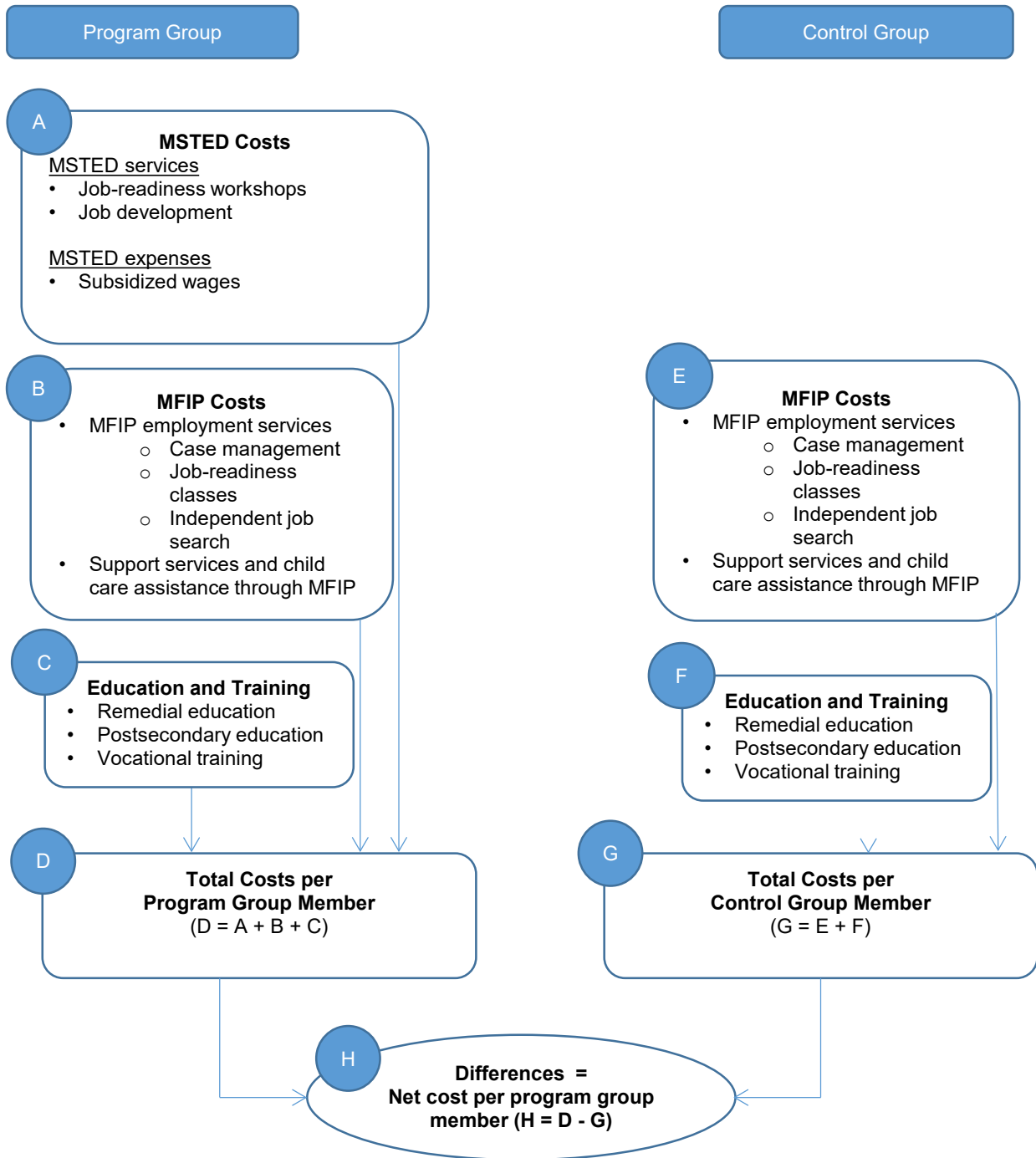
MFIP Costs

As mentioned above, both program group members and control group members were enrolled in MFIP and receiving some level of employment services from MFIP employment counselors. To estimate the cost of MFIP employment services, the research team first determined the cost of providing MFIP employment services to one person for one month and then multiplied this unit cost estimate by the average number of months that sample members in each group received MFIP employment services, as shown in Table 2.

A monthly per-person cost of MFIP employment services was calculated by taking the portion of MFIP's consolidated fund attributable to MFIP employment services as reported in the Minnesota Department of Human Services Summary of Biennial Service Agreements, dividing by 12 to get the monthly cost, then dividing by the average

⁵Expenditure reports from November and December 2014 were excluded for Hennepin and Ramsey counties as these likely represent costs related to study start-up costs. The first expenditure report for Hennepin County, which began program operations later, has also been excluded.

Figure 1
MSTED Cost Components



NOTE: MFIP = Minnesota Family Investment Program.

Table 2
Unit Costs and Participation Information

Component	Unit	Unit Cost		Length of Participation	
		Program Group	Control Group	Program Group	Control Group
MFIP employment services	Monthly	\$133	\$67	7.6	7.3
Remedial education	Weekly	\$116	\$116	2.9	3.4
Postsecondary education	Weekly	\$210	\$210	3.1	3.8
Vocational training	Weekly	\$228	\$228	1.7	1.7

SOURCES: Calculations based on data from U.S. Department of Education's National Center for Education Statistics' Integrated Postsecondary Education Data System; U.S. Department of Education's Office of Career, Technical, and Adult Education National Reporting System; Minnesota Department of Human Services (2017); and responses to the 12-month survey.

NOTE: MFIP = Minnesota Family Investment Program

number of adults receiving MFIP each month. MFIP's consolidated fund is a combination of state and federal TANF dollars allocated to counties that must be spent to develop programs and services that are designed to improve participant outcomes.⁶

Since the research team did not have information on the number of months sample members received MFIP employment services, they assumed that sample members received MFIP employment services the entire time they were on MFIP, as reported in the Minnesota Department of Human Services MAXIS database and shown in Table 2. The program group likely received employment services through MSTED but only interacted occasionally with their MFIP employment counselor. Additionally, program group members who exited MSTED without finding employment were expected to participate in MFIP employment services activities. Therefore, the level of services that program group members received from MFIP employment services lies somewhere between no services and the full level of services that control group members received. This analysis assumes that program group members received half the level of MFIP employment services that control group members did.

Supportive services and child care costs come from the Minnesota Department of Human Services Workforce One database.

Education and Training Costs

As mentioned above, some participants fulfilled the MFIP work activity requirements by participating in education or training services. These services were not typically paid for by MSTED or MFIP providers but were paid by outside agencies. To

⁶Minnesota Statutes (2018).

estimate costs, the research team first determined the cost of providing these services to one person for one week and then multiplied this unit cost estimate by the average number of weeks that sample members in each group received these services, as shown in Table 2. The research team relied on public sources to estimate the weekly costs of these services, detailed below, and participant survey data to estimate the number of weeks sample members received these services.

The costs of remedial education were calculated for Minnesota using information from the U.S. Department of Education's Office of Career, Technical, and Adult Education's National Reporting System and included participation in English as a Second Language, Adult Basic Education classes, and General Educational Development classes, as well as classes to prepare for a high school diploma. The research team assumed that research group members received vocational and postsecondary education services from the public community college system in the Minneapolis-St. Paul Bloomington area and estimated the costs of these services from the U.S. Department of Education's National Center for Education Statistics' Integrated Postsecondary Education Data System.

Costs

Average costs are divided into three categories — MSTED costs, MFIP costs, and education and training service costs — for the program and control groups. (See Table 3.)

MSTED Costs

The cost of MSTED program services, not including subsidized wages, was \$5,442 per program group member. Program group members received an average of \$654 in subsidized wages, bringing the total cost of MSTED to \$6,096 per program group member.

MFIP Costs

The cost of MFIP employment services per sample member averaged \$1,010 for the control group and \$485 for the program group, which is based on the assumption that program group members received less help from MFIP employment services than control group members because they were participating in MSTED.⁷ The cost of supportive services per sample member averaged \$273 for the control group and \$299 for the program group. Control group members received around \$400 more in child care on average than program group members. Overall, control group members incurred \$900 more in MFIP costs than program group members.

⁷The main analysis assumes program group members received 50 percent of the level of MFIP employment services that control group members did. Altering this assumption to either 25 percent or 75 percent results in a swing of plus or minus \$250 in the net cost.

Table 3
Estimated Net Cost per Program Group Member
(in 2016 dollars)

Component (\$)	Gross Costs		Net Costs per Program Group Member
	Program Group	Control Group	
MSTED costs			
Program	5,442	0	5,442
Subsidized wages	654	0	654
Total MSTED costs	6,096	0	6,096
MFIP costs			
Employment services	485	1,010	-525
Supportive services	299	273	26
Child care	5,935	6,336	-401
Total MFIP costs	6,719	7,619	-900
Education and training costs			
Remedial education	339	396	-56
Postsecondary education	677	801	-124
Vocational training	377	384	-7
Total education and training costs	1,393	1,581	-187
Total costs	14,209	9,200	5,009

SOURCES: Calculations for MSTED costs based on fiscal data from Minnesota Department of Human Services, participation data and wages from program providers. Calculations for MFIP costs based on data from Minnesota Department of Human Services (2017) and from the Minnesota Department of Human Services MAXIS database. Calculations for education and training costs based on data from U.S. Department of Education's National Center for Education Statistics' Integrated Postsecondary Education Data System; U.S. Department of Education's Office of Career, Technical, and Adult Education National Reporting System; and responses to the 12-month survey.

NOTE: MFIP = Minnesota Family Investment Program.

Education and Training Costs

Few members of either research group participated in remedial education in the first year of follow-up. The costs of these services averaged \$396 per control group member, compared with \$339 per program group member. In the first year of follow-up, program group members were less likely to participate in postsecondary education. The costs of these services averaged \$801 for the control group and \$677 for the program group. Control group members and program group members spent a similar amount of time on average in vocational training. The costs of these services averaged \$384 for the control group and \$377 for the program group.

Net Costs

The net cost is the difference between the program group costs and the control group costs and represents what was spent over and above what was spent on the control group. The net cost averaged \$5,009 per program group member. For a full discussion of costs across different subsidized employment program types, see the final synthesis report.

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