



Steve Rothschild, founder and chair of Twin Cities RISE!

Personal empowerment key to training the disadvantaged for living-wage jobs

A Civic Caucus Focus on Competitiveness Interview

May 17, 2013

Present

Dave Broden, Pat Davies, Paul Gilje (coordinator), Randy Johnson, Sallie Kemper, Dan Loritz (chair), Paul Ostrow, Steve Rothschild, Dana Schroeder, Clarence Shallbetter. By phone: Janis Clay, Tim McDonald.

Summary of Discussion

Steve Rothschild is founder and chair of Twin Cities RISE! (TCR!), an antipoverty/job training organization that trains underemployed and unemployed adults, primarily men from communities of color in the Twin Cities area, for skilled jobs that pay a living wage. The program serves 700 participants a year and works with 50 companies, mostly medium and smaller ones. Rothschild believes that the personal empowerment program developed by TCR! is the primary reason for its success in placing graduates in jobs averaging \$25,000 a year and the high rate of retention of graduates in those jobs for one year (81 percent) and for two years (71 percent). Over half of the participants in the program have a criminal history, but the three-year recidivism rate for graduates is 16 percent, compared with 61 percent for all Minnesota prisons. Rothschild says for change to endure, people must transform themselves and stop feeling powerless and hopeless, so they can become accountable for their own future. That requires a change in the beliefs that affect the way individuals think, feel and behave, which is the basis for the personal empowerment program. He believes personal empowerment (a non-therapeutic approach to emotional intelligence training and cognitive restructuring) should be taught to students in district public schools, but says the district bureaucracies have not been open to the idea. TCR! also developed a unique Pay for Performance funding model, in which it is paid only for successful graduates by the State of Minnesota. The model has been successfully operating since 1997.

Background

Steve Rothschild is founder (in 1994) and chair of Twin Cities RISE! (TCR!), an organization that provides employers with skilled workers, primarily men from communities of color in the Twin Cities area. Serving 700 participants each year, TCR! trains underemployed and unemployed adults for skilled jobs that pay a living wage.

In November 2010, he founded Invest in Outcomes (IIO) and serves as its president. IIO is a nonprofit organization whose purpose is to pilot a "Human Capital Performance Bond," an innovative financing vehicle to both improve the productivity of state human-service spending and to attract private investment capital for high-performing nonprofits.

Formerly, Rothschild was executive vice president of General Mills. Earlier in his career at General Mills, he launched Yoplait, USA, a yogurt company, and was its first president.

Rothschild earned an M.B.A. degree from the Wharton School, University of Pennsylvania, and an A.B. degree in Economics from Franklin and Marshall College in Pennsylvania. He is author of the February 2012 book *The Non Nonprofit: For-Profit Thinking for Nonprofit Success*.

Discussion

The Legislature and Congress are not dealing with the world of poverty.

Steve Rothschild, founder and chair of Twin Cities RISE! (TCR!), pointed out that the poverty rate of people of color is three times that of whites and that the disparity between African American and white incomes in the Twin Cities metropolitan area is the largest in the county.

We spend billions of dollars at the back end for subsidies, providing low-income housing, welfare payments, corrections, childcare, and very little at the front end on preventive programs.

We have an anti-welfare policy in our country not an anti-poverty policy. Even in job training most of the money is going into retraining dislocated workers. "We're not investing enough to really make a difference in people's knowledge base to attain good jobs," he said. We don't do a good job of investing in people in poverty."

Rothschild said there is a gap between jobs available and competent people to take those jobs. "It's a mismatch between the needs of employers and the ability of the people we have, particularly those living in poverty," he said.

Founding of Twin Cities RISE!

In 1994, Rothschild founded Twin Cities RISE! (TCR!), a job training program focused on black men getting to living wage jobs.

"Black men have been notoriously underinvested in, except in prison," he said. He reported that the men participating in TCR! bring an average competency of sixth to seventh grade. Some have

graduated from high school or gotten a General Educational Development (GED) degree, which is equivalent to ninth grade competency. They have poor work histories, drug and alcohol problems and, often, criminality. They are seen as high risk and low yield.

The program started with classroom work and one-on-one coaching, Rothschild said. It had three components: remedial education, skills training and soft skills development, i.e., dressing for success, getting to work on time, not arguing with the boss. He said many people dropped out of the program.

Poverty is a state of mind, as much as an economic circumstance.

"People who've grown up in the culture of generational poverty-two or three generations in poverty-have learned how to live on the street," he said. "Those are not good behaviors for the culture of working." Those street behaviors include blaming others for your misfortune and fighting or fleeing, but not negotiating.

"For change to endure," Rothschild said, "people must transform themselves. People have to stop feeling powerless and hopeless. That requires a belief-centered model. Beliefs affect how you think and the way you think affects the way you feel and the way you feel directly affects your behavior. If you only start with changing behavior, you're always going to be at odds with what you really believe."

He said that's why people have a hard time sustaining the soft skills training they get in job training or other poverty programs. "It's incongruent with what they believe," he said. "A belief-centered program requires a set of cognitive and emotional skills, coupled with a positive belief system."

It's based, Rothschild said, on cognitive restructuring from clinical psychology and emotional behavioral therapy. It's taught mostly by empowerment instructors, many of whom are graduates of the TCR! program.

He believes empowerment increases a person's capacity to get control over what they think. "The more you can regulate your state of mind, the more internal power you possess, which leads to a greater performance," he said.

The empowerment program focuses on self-awareness issues, such as, what emotional triggers set us off and how to be more intentional about our relationships. "It's the kind of help middle-class people get when they go to a clinical psychologist," he said.

The program also teaches emotional regulatory skills and self-esteem. "We teach that self-esteem is a choice you make and it's your birthright to be a worthy person," Rothschild said. "Most people we deal with received a different message at birth." They get negative messages that they are not lovable, important or valuable. "While remedial education and skills training are important to getting a job, it's the emotional strength that allows someone to retain a job and have a fuller life."

In response to a question about what kind of training employers do, Rothschild said employers want to see if a person is worth training before they invest a lot in them. "They want people with a good attitude," he said. "A good attitude means they're flexible and feel accountable to themselves. Employers don't do that kind of training."

Outcomes.

The TCR! empowerment curriculum leads to better outcomes for the participants.

Rothschild explained the outcomes TCR! measures:

- To what extent a participant's income changes as a result of being in the program: The income of participants averages \$6,000 before the program and \$25,000 at placement, after about a year in the program.
- Retention in the job one and two years out of the program: At one year, the retention rate is 81 percent; at two years, it's 71 percent. The average one-year retention rate for job training programs across the country is 56 percent. In programs across the country with 50 percent or more felons (like TCR!) the one-year retention rate is 46 percent.
- Recidivism after three years: The recidivism rate of TCR! graduates with felonies is 16 percent after three years versus 32 percent for TCR! early program dropouts. The average rate for Minnesota prisons is 61 percent.

"We attribute our better numbers to the empowerment curriculum," Rothschild said. "Perseverance is much more important than motivation."

"Most social service organizations don't measure outcomes, but rather measure outputs," he continued. "There's a big difference between outcomes and outputs. In job training, an output is how many people you place in a job. But that's not a reflection of long-term social progress. Only outcomes that measure, for example, change in income and retention in a job over time do that."

TCR! serves 700 people per year and it affects another 800 people indirectly through its empowerment work.

The length of time participants are in the program varies: some participate for six to nine months; some for two years. "We invest in people as long as they're willing to invest in themselves to get a living wage job," Rothschild said.

"Our empowerment training has proved to be so powerful for us," he continued, "that we've started to teach it to other organizations. We train their own trainers and certify them." He said TCR! has worked with the Jeremiah program, with charter schools, with special education programs in the St. Paul schools to help mainstream kids, and with several universities.

Rothschild explained that TCR!'s goal is to share the know-how the program has in pay-for-performance economic contracting and personal empowerment training, so other organizations can integrate it into what they're already doing.

Graduates of TCR! work at places like Wells Fargo, US Bank, law firms and in jobs such as warehousing, customer service and administrative assistant.

Responding to a question, Rothschild said the program works with 50 companies at any one time. "That mix has changed over the years from larger companies to medium and smaller companies," he said, "because we're working with more people with criminal records than when we began. The average starting salary for graduates is \$25,000 and the aim is to provide graduates with the skills they need to grow once they start a full-time job."

The recession and 9/11 have affected TCR!

In response to a question, Rothschild responded that the recession did affect TCR!, because there were fewer jobs. For the first time the two-year job retention level dropped below 70 percent. "A lot of that was layoffs," he said. "It's coming back now."

Following 9/11, he said, many companies wanted to lower their risk by not interviewing people with criminal records. Larger companies tend to focus away from people with criminal records, but smaller companies are more willing.

"Running a nonprofit is a lot like running a business," he said. "The market is always changing; the model you might start with isn't the model that's going to work as the world changes. And the world continues to change dramatically. The needs of our customers, who are employers in our case, change. We have to change with them."

Schools.

The big opportunity TCR! hasn't been able to address is the district public schools.

Rothschild noted that Minneapolis graduates only 50 percent of the students it enrolls. And only 38 percent of the kids of color graduate. Two-thirds of kids in district public schools are kids of color and two-thirds are on free lunch.

"I'd like to put TCR! out of business," he stated. "One way to do that is to work to attack these problems earlier. The place that has critical mass is the public school system, especially in big cities like Minneapolis and St. Paul."

Rothschild said there is a lot of new research into adverse childhood experiences (ACE), toxic stresses kids develop by living in households with violence, alcohol, drugs, abuse and neglect. He said these often occur in households with generational poverty. They lead to serious, lifelong issues: limitations on emotional and cognitive development and significant health risks, such as greater risk of disease and early death.

"We must empower the kids and their parents," he said. "We must get serious about dealing with psychological issues and lifestyle issues or we won't make a serious attempt at reducing poverty. Many of these kids come to school and they don't know why they're there. They don't even want to be there. Many have mentally dropped out by the time they're in third grade. They feel hopeless; they feel powerless. They don't see anyone around them who's benefitted from school."

"We have to give them a reason for being in school," he continued. "And you don't do that by just teaching them math and science and taking them to gym. Like all human beings, they have to develop a sense of themselves. It's even more important for them to learn these empowerment skills." He said it's more powerful if a program works with both parents and kids. Rothschild explained that teachers are not trained to deal with these issues, which leads to emotional and behavioral problems in classrooms.

He also said that over 40 percent of the people who come to TCR! are tactile or kinesthetic learners, people who learn by touching and feeling. Many kids act out and then drop out because they aren't being taught according to their primary learning style. They feel stupid, but they are not; they just learn differently. Traditional schools teach only by auditory and visual means.

"We should use all the tools that work to give people the chance to be successful," Rothschild said. "We ought to integrate empowerment programs into the public schools. We ought to teach using all learning styles. That would improve outcomes for kids dramatically."

A local foundation has tried unsuccessfully to get the Minneapolis school district to consider this, Rothschild said. "The bureaucracy is resistant to change. Minneapolis is behind some other communities who are doing this."

Investing at the front end, rather than the back end, would be more productive for kids.

An interviewer who visits kids at the juvenile detention center and visits people in prison commented, "What I see is a court system that's trying to intervene. The kids are survivors of chaos. They make the bad decision to pick up a gun. The courts intervene and send them to psychologists, give them medications and send them to a juvenile detention center that will 'change you as a person.'" Ten years ago, he said, there were 110 kids at the center on a typical Sunday; now there are about 35, because the courts have diverted a lot of kids out of juvenile detention centers. "But I don't sense that their lives have been changed. They're back with their families."

Rothschild responded, "It'd be a lot more productive if we invested at the front end rather than the back end. We're waiting for them to get into trouble and then we add all this stuff. It's not as helpful as it would be if we did it up front."

Funding.

TCR! is funded in part by a Pay for Performance statute.

In 1995, Rothschild went to then-Governor Arne Carlson and the Legislature and worked with Art Rolnick, an economist with the Federal Reserve System. He said state economists determined that a change in income from less than \$10,000 to an income of at least \$20,000 is worth an average of \$3,800 in cash to the state every year in increased taxes, saved incarceration expense and lower public subsidies. The state calculated the **present value** of those savings to be \$31,000. TCR! has had a contract with the Minnesota Department of Employment and Economic Development (DEED) since as a result of this research a Pay for Performance statute went into effect in 1997.

TCR! receives \$9,000 from the state if it's able to increase a graduate's income by at least \$10,000 a year to a job paying at least \$20,000. The organization gets another \$9,000 if the graduate is still in that job after one year. "We take all the risk," Rothschild said. Since 1997, as a result of this Pay for Performance funding, the state has invested approximately \$6 million in TCR! Over the same time, the state has benefitted by approximately \$39 million through its investment.

He pointed out that as the rising cost of health care continues to eat into state and federal budgets, there's less discretionary money to invest in things like poverty programs and workforce development programs and all the other things the state does. "Even though the state has almost a seven-to-one return, they're investing less in it," he noted.

State appropriation bonds could attract private investors.

Rothschild said that convinced him that TCR!, and other nonprofits, needed to go beyond state appropriations to entice private investors. "Why would a private investor be interested in investing in a social program?" he asked. "For the same reason they'd be interested in investing in anything. They get a return on investment that is competitive with other investment alternatives." It could be used for nonprofits in the state providing services such as health care, job training or supportive housing, whose interventions create savings to the state. The savings would be sufficient to pay investors an interest rate, to amortize their investment and pay for the administrative costs to the state, he said. "The little-known fact is that there are nonprofits that already create sufficient economic value through their preventive interventions to attract private investment. We need to measure it, capture it and reward it."

In 2010, Roth schild started another nonprofit called Invest in Outcomes (IIO).

The organization developed a model called the Human Capital Performance Bond (HUCAP), which is a state-issued annual appropriation bond. It's like any other bond the state sells. Investor risk is the underlying credit worthiness of the state, not the relationship of the state to the provider.

He said HUCAPs, a form of social impact investing, provide two benefits: (1) an incremental investment, beyond what taxes can pay for; and (2) only the highest social-return organizations will qualify for the money. "It'll be the first time we will have an objective, transparent and generally accepted measurement of outcomes used to provide support for social programs," he pointed out.

"This is the first time this type of bond will be used for a purpose other than a physical structure like a bridge, road or stadium," he said. "It'll be used to invest in social purpose organizations, whose preventive interventions not only create social value, but economic value that will pay for and attract market-rate investors. The law passed in 2011, approving up to \$10 million in bonding authority. A lawsuit against another annual appropriation bond held up work on it for over one year. It was assigned to the Department of Management and Budget (MMB) to implement, but it has not been high priority for them. Workforce development and supportive housing will be the first two areas piloted. He noted that in the last few months, the responsibility has been shifted to DEED and the state Housing Finance Agency, with MMB in charge of selling the bonds.

IIO worked with economists and evaluators and has provided the state with underlying economic analysis and an evaluation plan necessary to move forward. "We are hopeful that the pilot will commence this year," Rothschild said.

In response to a question, Rothschild said there is a lot of interest around the country in social impact investing. Most of the activity is in New York, Massachusetts, California, and Cleveland. "Minnesota was ahead of everyone at first, but we have lost that lead," he said.