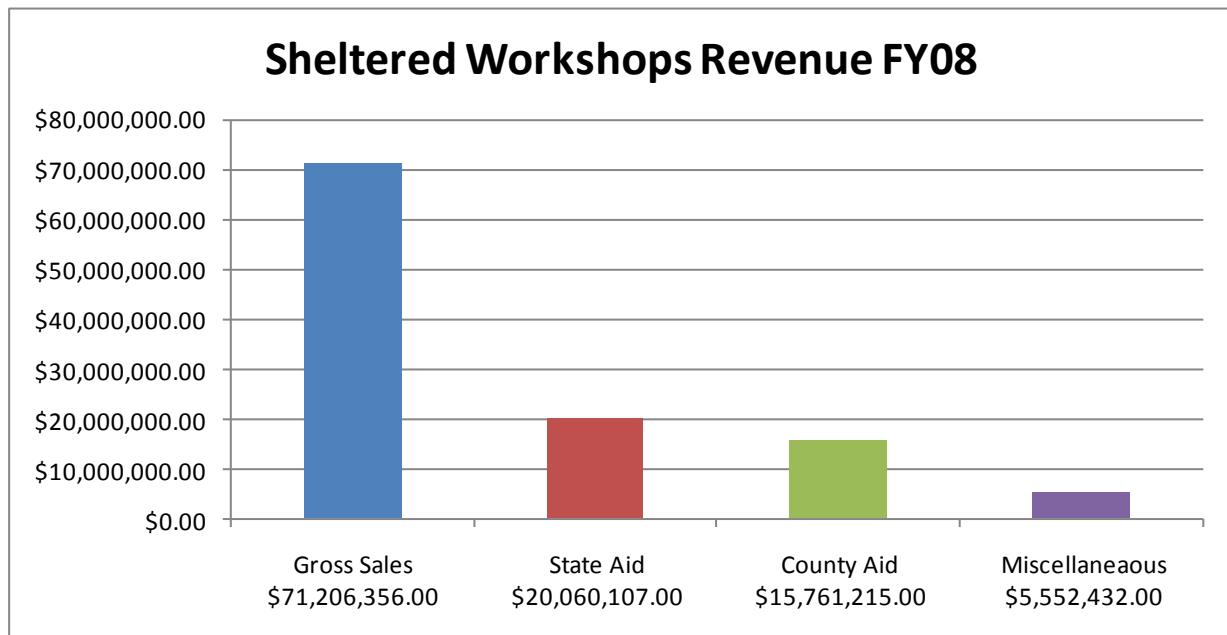


Missouri Sheltered Workshops FY 2008

The downturn of global economic conditions has had a negative effect on Missouri's Workshops. The following chart indicates this past year's revenue sources.



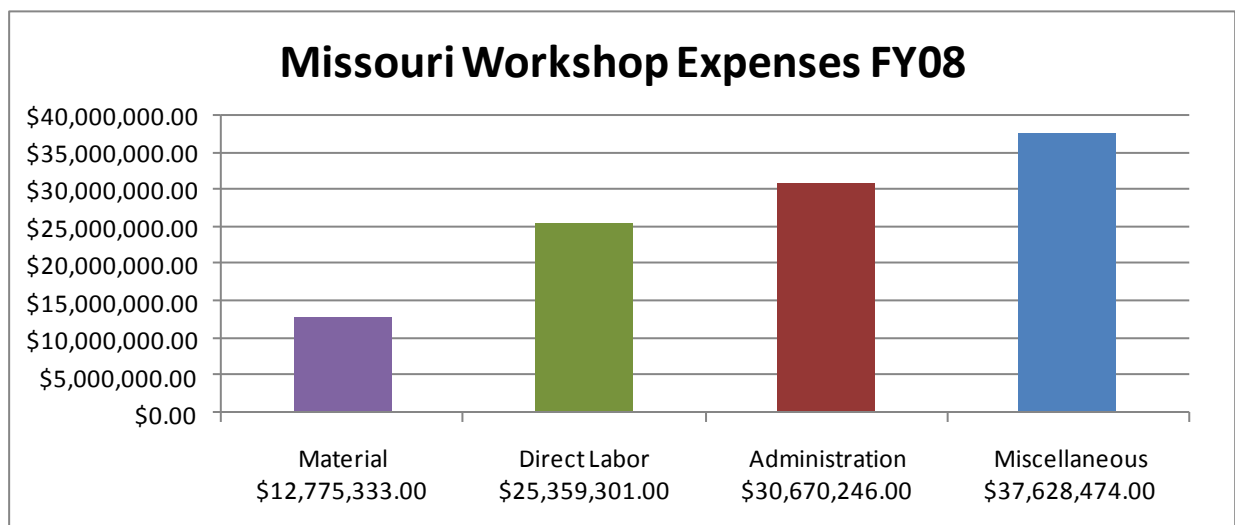
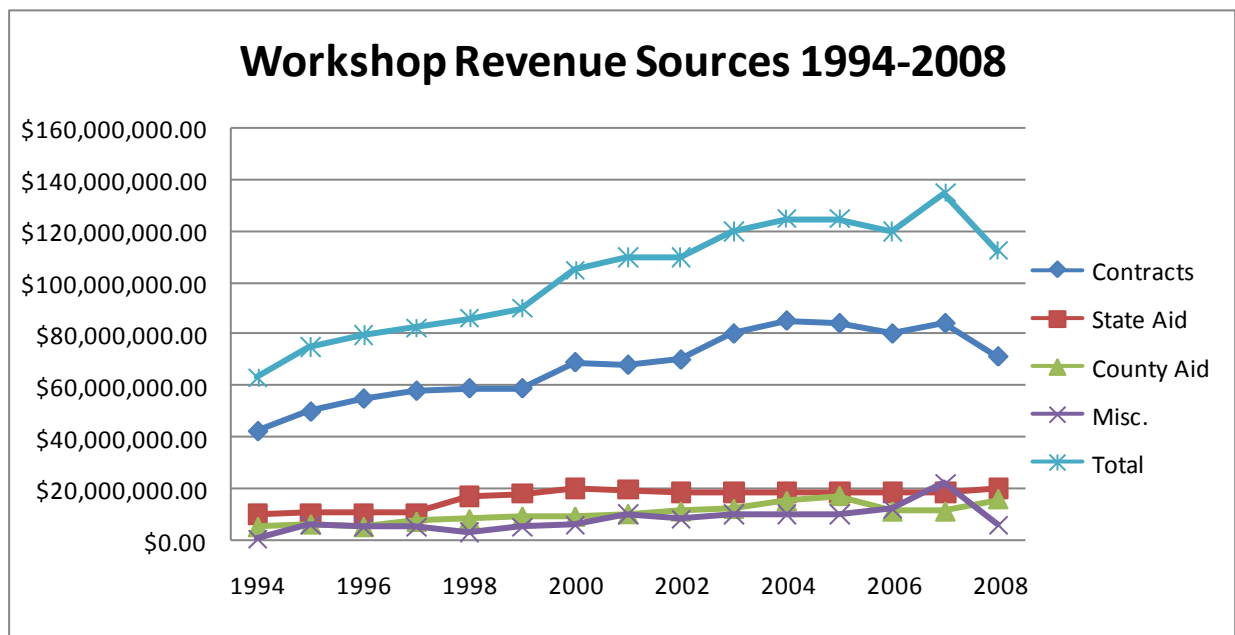
In FY 2008 the workshop system experienced a 17.2% decrease in the gross sales generated by the Workshops. In spite of the decline in sales, for every one tax dollar in state aid paid to support the state's Workshops, they earned \$3.55 in contract sales from private industry, or a 3.55:1 ratio of return.

Historically, the workshops have been the "weather vane" of the nation's light industry. The economic slowdown caused, in part, by loss of consumer confidence, weak sales, rising costs (materials, energy, transportation, etc.) and other reported factors were felt in the workshops' sales data mid way through FY-07. Its impact is graphically evidenced in the FY-08 data. A considerable number of facility based contracts that had been traditionally considered "long-term" have shrunk back into private industry that is concerned about keeping their own labor force "busy", to address inventory issues and to reduce transportation costs, among a host of other reasons.

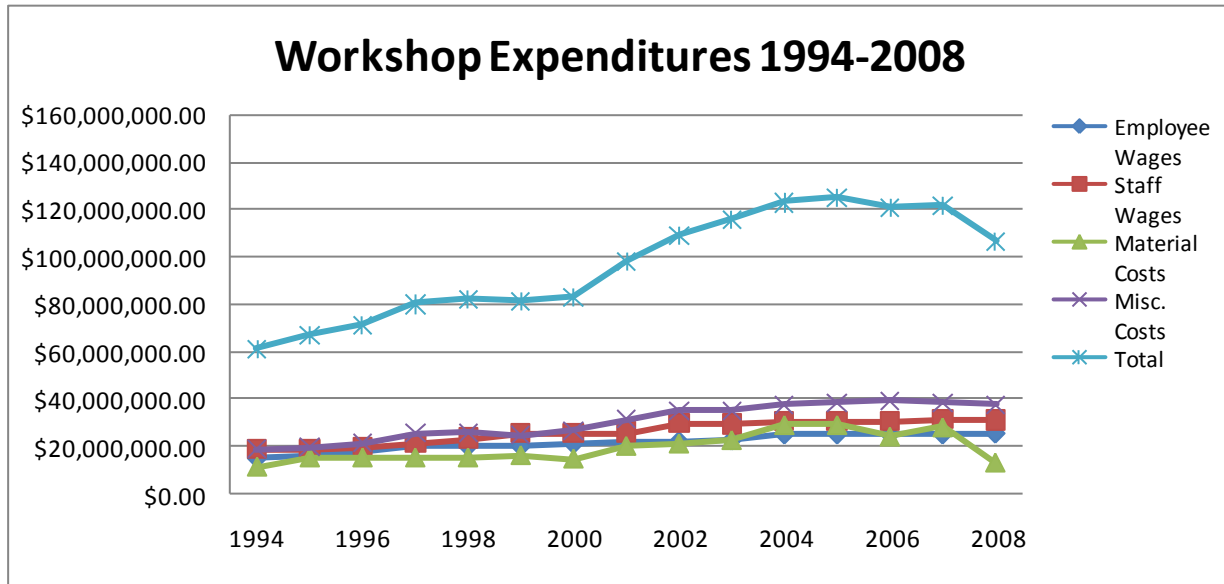
Selling the Sheltered Workshop services and capabilities to industry has always been the toughest function for these corporations. The changing world markets, coupled with the downturn of the global economy, have resulted in further stress on the industry. As an example, one-third of the Workshops have some sort of contract

recycling operation; during the second half of FY-08 the lack of foreign demand dropped drastically causing the price for recycled materials (fiber, plastic, non-ferrous material, etc.) have dropped to less than one-half of the labor cost needed to process it.

As indicated in the charts, below, the Workshops have reacted to the decrease in income (from \$134.9 million in FY-07 to \$112.6 million in FY-08) with a proportional reduction of expenses (from \$122.2 in FY-07 to \$106.4 million in FY-08). The primary reason for the reduction in income was the \$12.22 million, or 17.2%, decrease in contract income as well as decreases in grant and donation income.



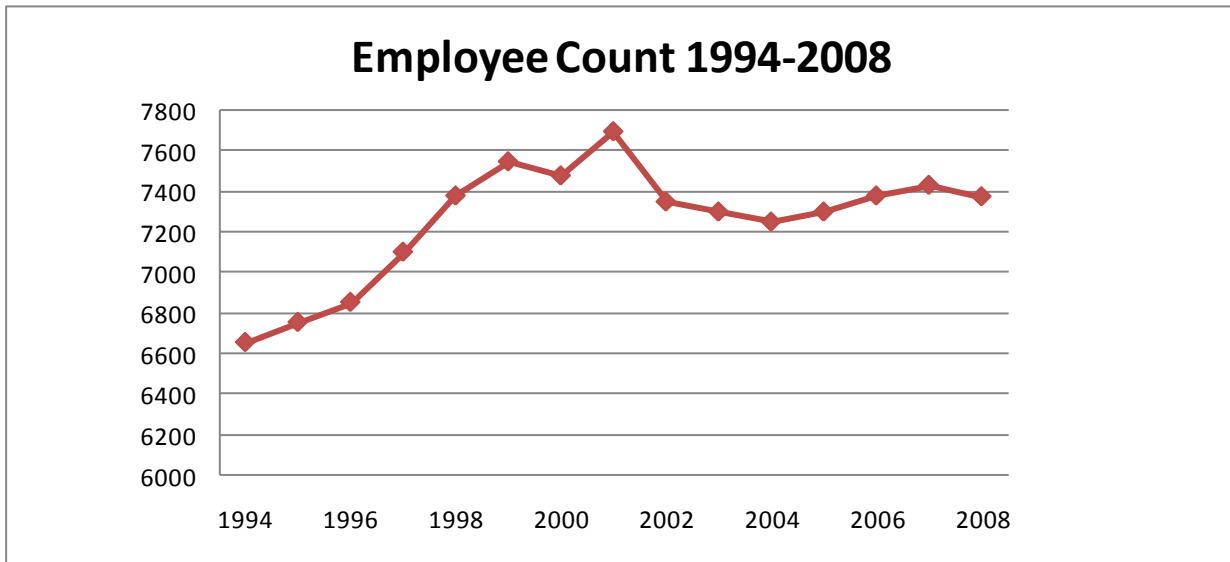
Proportional reduction in Workshop operational costs came from the \$12.2 decline of material purchases while holding the direct labor, administrative and miscellaneous cost relatively 'flat' to the FY-07 data results.



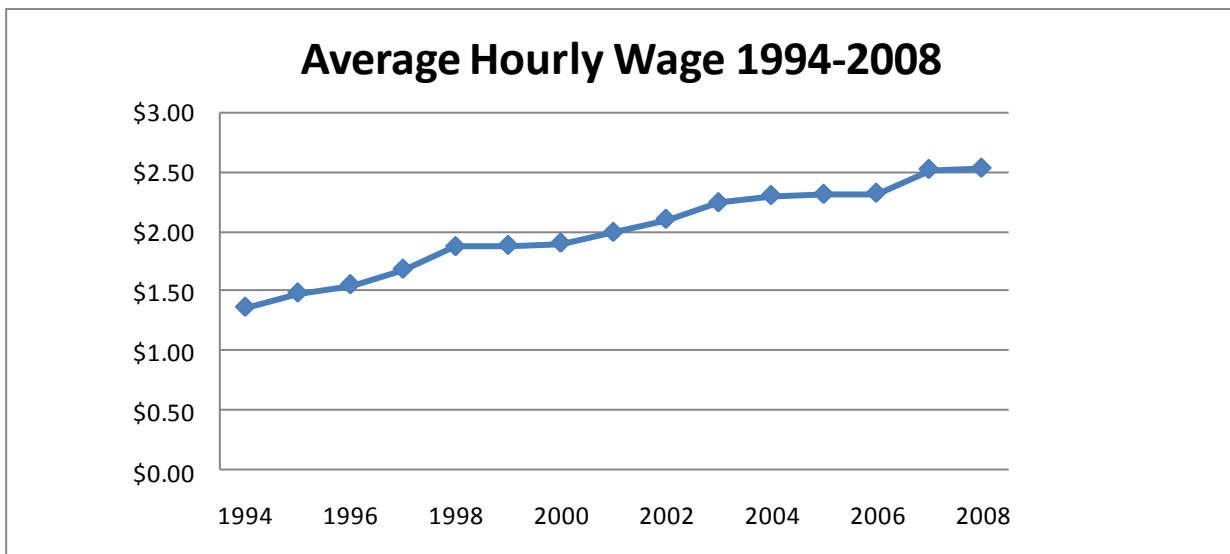
It appears that Missouri's Workshops have absorbed increases in both the Missouri and US minimum wages during the first half of the 2008 fiscal year. The full impact of the increases in the federal and state minimum wages will not be fully felt until industry has had enough time to react to the mandated increase in cost by continuing to export their labor intensive work to foreign countries where there are no minimum wage laws and where labor costs are extremely low compared to US standards. The full impact will not be able to be determined for the next several years. The changing structure of the nation's economy will continue to present many difficult challenges to our current system that will necessitate changes in current operating strategies. Workshop corporations have begun this process by researching and anticipating market needs, technical capabilities, operational structures and employee training that will be required by the supporting industries that provides the essential contract income. While maintaining a concerted effort on industrial contract sales, a number of workshops are shifting their efforts to community based service contracts to supplement the decline of facility based work.

Employment data counts have remained fairly constant in light of decreased contract work. The latter could be a reason for a 600 person "waiting list" for employment and an increase in reported Training hours. As in the industry that it serves, the Workshops are

conducting training programs and using layoff as a means of last resort. Please keep in mind the number shown is a set number of employees at a set time. This does not take into consideration all of the people affected by various personnel activities during the year considering attrition, retirement, relocation, etc. This number is hard to determine but is most likely just below 7,800.



The average hourly wage continues to increase as local prevailing wage rates increase. However, the decrease in available contract work and the increase in training hours, the FY-08 Workshop average hourly wage has taken a less than a 1% increase to \$2.53 per hour.



Workshops do not pay sub-minimum wages but, rather, commensurate wages based on the employee's ability to produce in relation to a non-disabled standard. Workshops are required to determine prevailing wage rates for like type work done by experienced workers in the surrounding community. FY 2008 prevailing wages in the majority of shops were in the \$7.50 to \$9.00 per hour range which is reflective in the increase in the federal minimum wage rates. Employees are evaluated in relation to a non-disabled standard on the job they are assigned at least every six months. For example, if an employee is producing 50 units per hour and the industrial standard is 100 units, then the rate of pay is 50% of the prevailing wage rate for that job. If the prevailing wage rate is \$8.00, the employee will receive \$4.00 per hour. The workshop still pays \$8.00 in labor for producing 100 units, the same amount a non-disabled worker would make. Commensurate wages do not mean less labor cost. The direct labor costs for workshops in fact are comparable to other similar business operations. Generally overhead costs for workshops, including supervision, insurance, utilities, etc., are higher than similar businesses. Workshop employees, on average, historically produce at one third of a non-disabled worker. If a normal business needs 10 employees to produce 10,000 units a month, a workshop would need 30 employees to do the same. The increase in the number of workers required to do the job drives up normal overhead costs, i.e. supervision, space, insurance, utilities, etc. State and county financial aid have been the primary source for offsetting these additional costs.

Workshops continue to be the primary employment option for many people with disabilities, and workshops continue to be a cost effective means of providing employment. Still, for every dollar in state aid provided to Workshops in FY-08, \$3.55 was generated by workshop in sales to make the program successful since it generates and retains income to local communities. In this respect, employees with disabilities are "contributing" members of the community rather than "consumers" of services and dollars. Combined with the fact that other day programs are more than double the cost per participant, this makes workshops a win-win situation for not only individuals with disabilities but also the state and local taxpayers.

In summary, Missouri's Sheltered Workshop system has had a very challenging year lead by a decline of private industry contract sales leaving them with little time and resources to make the adjustments necessary to maintain a stable and productive labor force. Financial challenges will continue from both the private and public sectors for the next several fiscal years or until such time that general economic conditions improve.

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