

Legislative Conference
January 25, 2012
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(Return on Investment)

Thank you for coming today and thank you for your dedicated public service. I hope what I have to say will be helpful to your work. Copies of the book were distributed to both the house and senate mail rooms. If you didn't receive a copy just let me know afterwards.

My analyses and the recommendations in the final section of "More Bang for your Buck" are non-partisan and simply offer some reform ideas that should make taxpayer dollars more cost effective. What I suggest in the book is what I call "advanced cost/benefit analysis". By that I mean not just comparing one program or public policy approach with another....but to do so in a manner that computes in dollar terms what a program's return on investment is to the state of Minnesota and as importantly to the taxpayer. Hopefully this should help as you work to prioritize spending options. I will go through some examples of what \$1:00 invested by taxpayers returns to taxpayers over what might be a three, five, ten year period or perhaps even longer.

To begin with as background I think we all agree that the best welfare program is a job ideally paying a living wage. For the state to calculate the ROI of the job skill training programs it funds we need to know several things: First, if the individual trained is still working in Minnesota and if so what is their annual income. Second, what was the individual earning prior

to training. With this data we can calculate the net gain in income and estimate quite accurately the benefit to the state from higher sales, payroll, income and other taxes. Next we need to know if the trainee had been on welfare and how much of this expense has been eliminated or reduced. In addition if they had been at risk of re-entering the criminal justice system we need to calculate the odds of that happening had they remained unemployed. These benefits (higher taxes and lower state expenses) can then be compared with the training and job placement costs to calculate the return on the taxpayers' investment.

Currently with the data available we can come pretty close to making an accurate estimate of the return on investment of these state funded programs. Accuracy can be enhanced if there can be better coordination with systems analysis between DEED, Human Services and Corrections. With a modest investment I believe this is doable as discussed in Section Three of the book. Overall it appears that the return on investment in our well managed jobskill training programs is attractive ranging between 10 to 20% annually. This doesn't consider the added benefits of stabilizing the family, providing better future prospects for the children involved and giving Minnesota's employers an additional skilled worker.

Current demographic forecasts project a shortage of skilled and semi-skilled workers in Minnesota over the next two decades. We also know that for a prospective worker to be even ready for job skill training a number of other things have to be in place such as stable housing, quality education from Pre K through high-school and where appropriate advanced technical

and academic training. Six workforce training programs are included in the study including Twin Cities Rise founded by our next speaker Steve Rothschild,

I would now like to share with you some examples that are in the book of how return on investment metrics can be applied to programs that both help to create jobs as well as prepare more Minnesotans for the world of work.

Bill and Gail Roddy initiated a program at Hennepin County's Glen Lake Home School for delinquent young men called Osiris. By teaching basic computer skills to over 100 of these men they were able to reduce the recidivism rate from 50% to 30% for one group and even further to 15% for a sub group that in turn became teachers in their neighborhoods. It costs \$70,000 for nine months on average of incarceration at Glen Lake. The savings from reducing the recidivism rate were substantial returning more than \$5.00 for every \$1.00 invested by the tax payer.

Mike Temali who founded and manages the Neighborhood Development Center teaches residents in lower income neighborhoods how to bring their off the back porch craft businesses to scale. With training in developing a business plan, ongoing technical advice and modest financial support NDC has created over 400 businesses over a six year period at a cost of \$7.1 million. After two years the initial cost was recovered and each added year now generates \$4.6 million in taxes or an ongoing return of 67% annually on the dollars invested.

In certain cases we have to look at the benefits of a program over a longer time frame. This is especially true in the areas of education and job skill training.

Admission Possible is a program that mentors high-chool kids who never dreamed of going to college. Students are exposed for the first time to the benefits of higher education and then shown a time line that illustrates how with good grades and access to college funding programs they can achieve the impossible. The cost per student is \$3,000 and the benefit is life time earnings at least \$1,000,000 higher than they would have had with just a highschool diploma. The added taxes paid translates into a return of over \$4.00 for every \$1.00 invested over forty years and \$2.63 for each \$1.00 of investment over a ten year period.

Other examples of ROI analysis in the book that offer high returns include affordable housiing programs, early childhood education, after school boost up programs, the benefit of delaying entrance into expensive nursing home care, mortgage foreclosure prevention and, curing child abuse and neglect.

Now I would ask that you close your eyes for just a moment and envision that we have developed Minnesota's cost/benefit or Return on Investment analysis systems to the point where we had no disagreement on the facts of which programs offered the best long term payoff to the taxpayer. The political debate might then be better able to be focussed on what we can afford to spend overall as well as which general areas of spending were most needed by our state at this point in time.

The State of Washington has made great progress in this respect. Their approach is outlined in the book. Additional examples of how leading national research think tanks apply cost benefit analysis to state government issues are included in Section Four of the book. I believe we can do the same by enlisting Minnesota's leading accounting firms to assist current efforts now under way in our non-profit and foundation communities.

What I am suggesting is not rocket science but simply measuring more effectively the value of what we do and then in turn being able to communicate to the taxpayer in a manner that helps them become more effective citizens and you our elected officials more effective leaders.

Thank you for letting me share these thoughts with you.