

The Socioeconomic Benefits Generated by Austin Community College

State of Texas

Executive Summary

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Executive Summary

HIGHLIGHTS

- Austin Community College pays \$70.9 million in direct faculty and staff wages and salaries, and explains an additional \$555 million in wages and salaries off campus.
- Taxpayers see a real money “book” return of 25.5% on their annual investments in Austin Community College and recover all investments in 5.5 years.
- Students enjoy an attractive 26% annual return on their investment of time and money – for every \$1 the student invests in ACC, he or she will receive a cumulative \$9.04 in higher future earnings over the next 30 years.
- The State of Texas benefits from improved health and reduced welfare, unemployment, and crime, saving the public some \$15.3 million per year.

into common sense benefit-cost and investment terms. It has been subjected to peer review, field tested on over 160 different CCs throughout the nation, and is now applied to ACC. Model results are based on solid economic theory, carefully drawn functional relationships, and a wealth of national and local education-related data. The model provides relief from the all-too-common “advocacy analyses” that inflate benefits, understate costs, and thus discredit the process of higher education impact assessment.



INTRODUCTION

How do the Austin Community College District economy and the State of Texas benefit from the presence of Austin Community College (ACC)? An obvious question often asked, but rarely answered with more than anecdotes. In this study, CCbenefits, Inc. applied a comprehensive economic model they have developed to capture and quantify the economic and social benefits of community colleges (CCs). The model, which took over a year to develop with funding from the Association for Community College Trustees (ACCT), relies on data collected from individual CCs, and translates these

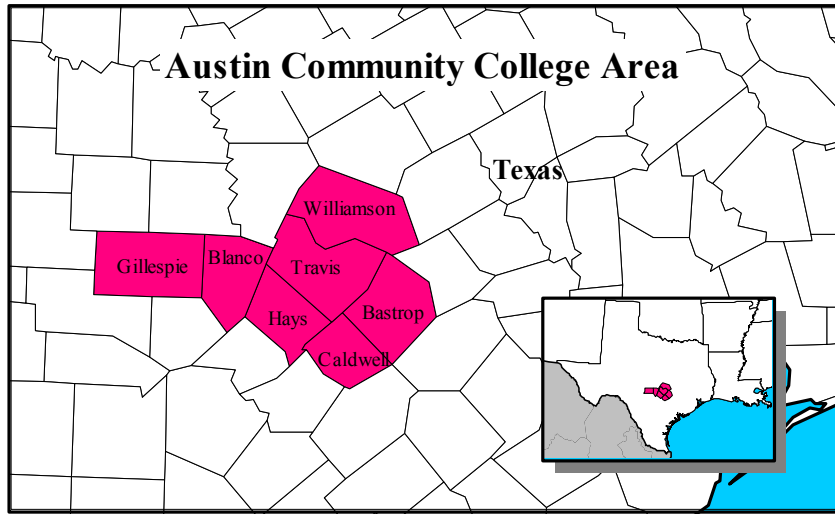
Four types of benefits are tracked: (1) contributions to local job and income formation (regional economic benefits); (2) higher earnings captured by exiting students; (3) a broad collection of social benefits (improved health, reduced crime, and lower welfare and unemployment); and (4) the return to taxpayers for their CC support.

THE RESULTS

For a more in depth exploration of this topic, the reader is encouraged to consult the main report “The Socioeconomic Benefits Generated by Austin Community College” containing the

detailed assumptions, their context, and the computation procedures.

District economy. Based on current enrollment, turnover, and the growth of instruction over time, the local region workforce embodies an estimated 8.3 million credits of past instruction (credit and non-credit hours). The accumulated contribution of past ACC instruction adds some \$526.4 million in annual earnings to the Austin Community College District economy (equal to that of 13,312 jobs).



➤ **Regional Perspective – the Austin Community College Economy**

The existence of ACC explains \$626.0 million of all annual earnings in the Austin Community College District economy (see map). The earnings explained by ACC are equal to that of roughly 15,829 jobs. The earnings and job effects break down as follows:

- *ACC Operations and Capital Spending*

ACC pays wages and salaries, which generate additional incomes as they are spent. Likewise, ACC operating and capital expenditures generate still further earnings. Altogether, these earnings account for \$99.6 million annually in the Austin Community College District economy (equal to that of 2,517 jobs).

- *Higher Earnings due to Past Instruction*

Each year students leave ACC and join or rejoin the local workforce. Their added skills translate to higher earnings and a more robust Austin Community College

➤ **Student Perspective**

The student’s perspective on the benefits of higher education is the most obvious: he or she sacrifices tuition and current earnings for a lifetime of higher earnings. For every credit completed ACC students will, on average, earn \$124 more per year every year they are in the workforce. Alternatively, for every full-time year they attend they will earn an additional \$3,871 per year. In the aggregate (all exiting students), the higher earnings amount to some \$82.4 million per year for each year they remain in the workforce.

From an investment standpoint, ACC students will enjoy a 26% rate of return on their investments of time and money, which compares favorably with the returns on other investments, e.g., the long-term return on US stocks and bonds. The corresponding B/C ratio (the sum of the discounted future benefits divided by the sum of the discounted costs) is 9.0, i.e., for every \$1 the student invests in ACC education, he or she will receive a cumulative of \$9.04 in higher future earnings over the next 30 years or so. The

payback period (the time needed to recover all costs) is 5.7 years.

➤ **Taxpayer Perspectives**

State and local government spent \$54,525,472 in support of ACC during the analysis year. Is this a good use of taxpayer money? Our analysis indicates that the answer is a resounding yes: returns far outweigh the costs, particularly when a collection of social savings is included in the assessment. For example, persons with higher education are less likely to smoke or abuse alcohol, draw welfare or unemployment benefits, or commit crimes. This translates into associated dollar savings (avoided costs) amounting to some \$23 per credit per year, counted as an indirect benefit of ACC education. When aggregated across all exiting students, the State of Texas will benefit from \$15.3 million worth of avoided costs per year, broken down as follows:

- *Improved Health*

Austin Community College District area employers will see health-related absenteeism decline by 20,432 days per year, with a corresponding annual dollar savings of \$1.7 million. The state will benefit from the health-related savings of 1,152 fewer smokers and 281 fewer alcohol abusers. The corresponding dollar savings are \$3,412,187 and \$2,234,184 per year, now and into the future (these savings include insurance premiums, co-payments and deductibles, and withholding for Medicare and Medicaid).

- *Reduced Crime*

Studies show that incarceration drops with each year of higher education. In the

Austin Community College District, 305 fewer individuals will be incarcerated per year, resulting in annual savings of \$3,504,508 (combined savings from reduced arrest, prosecution, jail, and reform costs). Reductions in victim costs (e.g., property damage, legal expenses, lost workdays, etc.) result in savings of \$735,983 per year. Finally, that people are employed rather than incarcerated adds \$1,101,617 of earnings per year to the economy.

- *Reduced Welfare/Unemployment*

There will be 156 fewer people on welfare, and 234 fewer drawing unemployment benefits per year, respectively, saving some \$624,098 and \$1,936,015 per year in the state.

➤ **Taxpayer Return on Investment**

The return on a year's worth of state and local government investment in ACC is obtained by projecting the associated educational benefits into the future, discounting them back to the present, and weighing these against the \$54,525,472 state and local taxpayers spent during the analysis year to support the college. The analysis assumes that without the state and local government support (60% of the budget) ACC would have to shut its doors. Two investment perspectives are possible, one broad and one narrow.

- *Broad Perspective*

Taxpayers expect their annual investment in ACC to result in higher lifetime earnings for students and social savings from lifestyle changes (reduced crime, welfare and unemployment, and improvements in health). From a broad investment perspective, the value of *all* future earnings and associated social

savings is compared to the year's worth of state and local taxpayer support that made the benefits possible. Following this procedure, it is estimated that ACC provides a B/C ratio of 29.4, i.e., every dollar of state or local tax money invested in ACC today returns a cumulative of \$29 over the next 30 years.

- *Narrow Perspective*

The narrow perspective limits the benefit stream to state and local government budgets, namely increased tax collections and expenditure savings. For example, in place of total increased student earnings, the narrow perspective includes only the increased state and local tax receipts from those higher earnings. Similarly, in place of overall crime, welfare, unemployment and health savings, the narrow perspective includes only those portions that translate to actual reductions in state and local government expenditures.

Note here that it is normal for the state government to undertake activities wanted by the public, which are unprofitable in the marketplace. This means that positive economic returns are generally not expected from government investments. From the narrow taxpayer perspective, therefore, even a small positive return (a B/C ratio equal to just greater than 1, and/or a rate of return

equal to or just greater than the 4.0% discount rate used in this analysis) would be a most favorable outcome, certainly one that justifies continued taxpayer support of the college. For ACC, the narrow perspective results greatly exceed the minimum expectations. The results indicate strong and positive returns: a RR of 25.5%, a B/C ratio of 4.6 (every dollar of state or local tax money invested in ACC today returns \$4.59), and a short payback period of only 5.5 years.

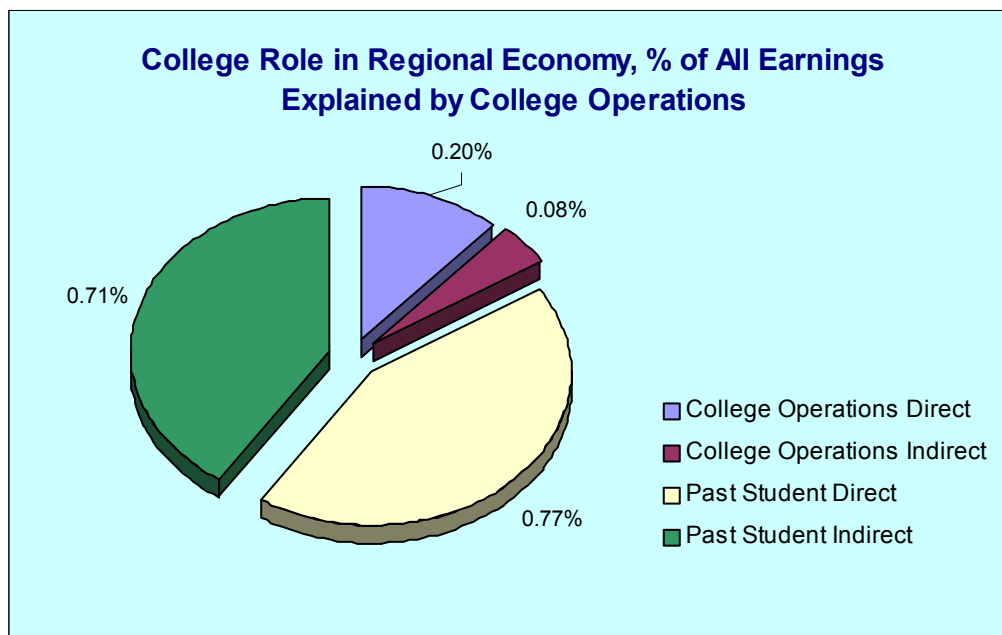


CONCLUSION

The results of this study demonstrate that ACC is a sound investment from a multiple of perspectives. It enriches the lives of students while reducing the demand for taxpayer-supported social services. Finally, it contributes to the vitality of both the local and state economies.

Benefits at a Glance

Regional Analysis	Regional Impact		
Regional Economic Development			
Increment from college operations	\$99,552,000		
Increment from past student productivity	\$526,440,000		
Total	\$625,992,000		
Job equivalent	15,829		
Annual Benefits			
<i>Higher earnings</i>			
Aggregate (all student)	\$82,432,982		
Per Credit	\$124		
Per year full time equivalent student	\$3,871		
<i>Social savings</i>			
Aggregate (all students)	\$15,281,765		
Per Credit	\$23		
Per year full time equivalent student	\$1,341		
Investment Analysis	RR	B/C Ratio	Payback (Years)
Students	26.5%	9.0	5.7
Taxpayers: Broad Perspective	NA	29.4	NA
Taxpayers: Narrow Perspective	25.5%	4.6	5.5



In sum, the graph shows that the college explains a total of 1.8% of all earnings (\$35.56 billion) generated from all sources in the economic region.

This short summary report is one of four products generated for this impact study. In addition, one long report intended for economists and CC institutional researchers (65 pp) lays out the detailed assumptions and analysis. Another report (10 pp) provides detailed tabular results by gender, ethnicity, and entry levels of education. Lastly, a PowerPoint presentation is developed showing the main results for CC Presidents to adapt and use in speeches before state legislators and other education stakeholders.