



The Socioeconomic Benefits Generated by Chabot College

State of California

Executive Summary

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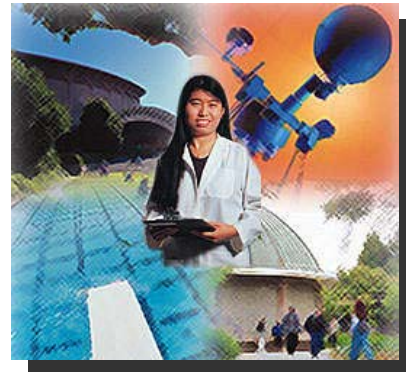
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Executive Summary

HIGHLIGHTS

- Chabot College pays \$33.5 million annually in direct faculty and staff wages, salaries, and benefits (i.e., earnings), and accounts for an additional \$150.9 million in earnings off campus.
- Taxpayers see a real money “book” return of 7.2% on their annual investments in Chabot College and recover all investments in 12.3 years.
- Students enjoy an attractive 23% annual return on their investment of time and money – for every \$1 the student invests in Chabot, he or she will receive a cumulative \$7.12 in higher future earnings over the next 30 years or so.
- The State of California benefits from improved health and reduced welfare, unemployment, and crime, saving the public some \$5.9 million per year.

translates these into common sense benefit-cost and investment terms. The model has been subjected to peer review and field-tested on over 220 different CCs throughout the nation. 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

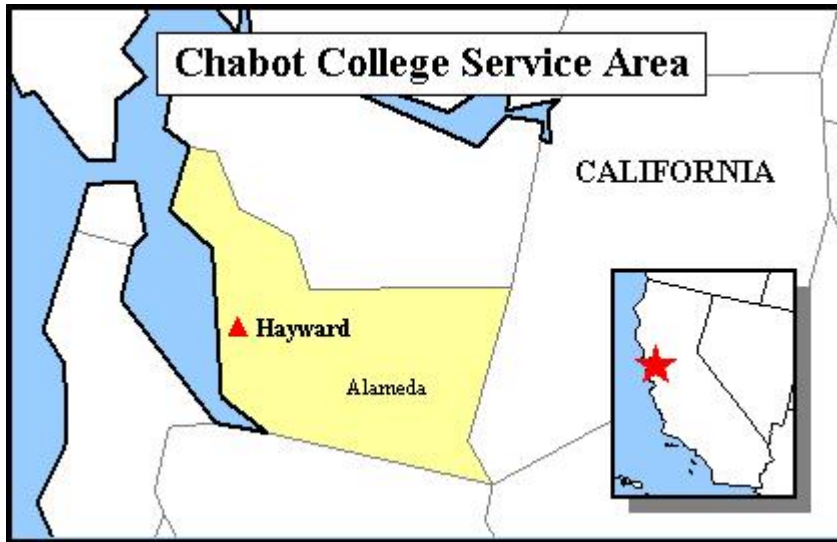
How do the Chabot College Service Area economy and the State of California benefit from the presence of Chabot College (Chabot)? An obvious question often asked, but rarely answered with more than anecdotes. In this study, CCbenefits, Inc. applied a comprehensive economic model they developed with funding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

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, 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 Chabot College,” containing the detailed assumptions,

their context, and the computation procedures.



turnover, and the growth of instruction over time, the local region workforce

embodies an estimated 2.7 million credits of past and present instruction (credit and non-credit hours). The accumulated contribution of past and present Chabot instruction adds some \$141.5 million in annual earnings to the Chabot College Service Area economy (equal to that of 2,977 jobs).

➤ **Student Perspective**

The student's perspective on the benefits of higher

➤ **Regional Perspective – the Chabot College Economy**

Chabot accounts for \$184.4 million of all annual earnings in the Chabot College Service Area economy (see map). The earnings explained by Chabot are equal to that of roughly 3,908 jobs. The earnings and job effects break down as follows:

- *Chabot Operations and Capital Spending*

Chabot faculty and staff earnings generate additional incomes as they are spent. Likewise, Chabot operating and capital expenditures generate still further earnings. Altogether, these earnings account for \$42.9 million annually in the Chabot College Service Area economy (equal to that of 931 jobs).

- *Higher Earnings due to Past Instruction*

Each year students leave Chabot and join or rejoin the local workforce. Their added skills translate to higher earnings and a more robust Chabot College Service Area economy. Based on current enrollment,

education is the most obvious: he or she sacrifices tuition and current earnings for a lifetime of higher earnings. For every credit completed, Chabot students will, on average, earn \$121 more per year each year they are in the workforce.

Alternatively, for every full-time year they attend they will earn an additional \$3,506 per year. In the aggregate (all exiting students), the higher earnings amount to some \$18.6 million per year for each year they remain in the workforce.

From an investment standpoint, Chabot students will enjoy a 23% 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 7.1, i.e., for every \$1 the student invests in Chabot education, he or she will receive a cumulative of \$7.12 in higher future earnings over the next 30 years or so. The

payback period (the time needed to recover all costs) is 6.4 years.

➤ **Taxpayer Perspectives**

State and local government spent \$38.2 million in support of Chabot 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 \$38 per credit per year, counted as an indirect benefit of Chabot education. When aggregated across all exiting students, the State of California will benefit from \$5.9 million worth of avoided costs per year, broken down as follows:

- *Improved Health*

Employers in the Chabot College Service Area will see health-related absenteeism decline by 6,858 days per year, with a corresponding annual dollar savings of \$633.6 thousand. The state will benefit from the health-related savings of 75 fewer smokers and 44 fewer alcohol abusers. The corresponding dollar savings are \$221.2 thousand and \$346.5 thousand 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 Chabot College Service Area, 102 fewer individuals will be incarcerated per year, resulting in annual savings of \$1.1 million (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 \$1.2 million per year. Finally, that people are employed rather than incarcerated adds \$415.7 thousand of earnings per year to the economy.

- *Reduced Welfare/Unemployment*

There will be 287 fewer people on welfare, and 101 fewer drawing unemployment benefits per year, saving some \$1.1 million and \$824.3 thousand per year, respectively.

➤ **Taxpayer Return on Investment**

The return on a year's worth of state and local government investment in Chabot is obtained by projecting the associated educational benefits into the future, discounting them back to the present, and weighing these against the \$38.2 million state and local taxpayers spent during the analysis year to support the college. The analysis is based on the portion of Chabot operations that is wholly dependent on state and local government support. Two investment perspectives are possible, one broad and one narrow.

- *Broad Perspective*

Taxpayers expect their annual investment in Chabot 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 Chabot provides a B/C ratio of 8.2, i.e., every dollar of state or local tax money invested in Chabot today returns a cumulative of \$8.2 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 Chabot, the narrow perspective results greatly exceed the minimum expectations. The results indicate strong and positive returns: a RR of 7.2%, a B/C ratio of 1.4 (every dollar of state or local tax money invested in Chabot today returns \$1.44), and a short payback period of only 12.3 years.

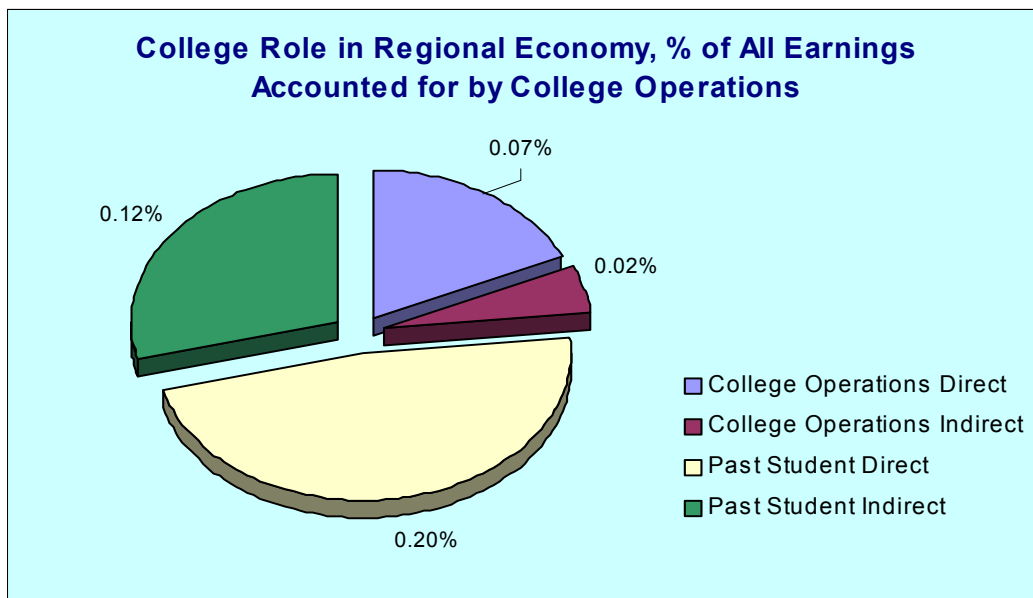


CONCLUSION

The results of this study demonstrate that Chabot is a sound investment from multiple perspectives. The college enriches the lives of students and reduces 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 Chabot operations			\$42,931,000
Increment from past student productivity			\$141,457,000
Total			\$184,388,000
Job equivalent			3,908
Annual Benefits			
<i>Higher earnings</i>			
Aggregate (all students)			\$18,643,634
Per Credit			\$121
Per full-year equivalent student			\$3,506
<i>Social savings</i>			
Aggregate (all students)			\$5,920,165
Per Credit			\$38
Per full-year equivalent student			\$1,113
Investment Analysis	RR	B/C Ratio	Payback (Years)
Students	22.9%	7.1	6.4
Taxpayers: Broad Perspective	NA	8.2	NA
Taxpayers: Narrow Perspective	7.2%	1.4	12.3



In sum, the graph shows that the college accounts for a total of 0.4% of all earnings (\$44.8 billion) generated from all sources in the economic region.

This short summary report is one of six products generated for this impact study. In addition, one long report intended for economists and CC institutional researchers (86 pp) lays out the detailed assumptions and analysis. Another report (9 pp) provides detailed tabular results by gender, ethnicity, and entry levels of education, and a one-page fact sheet contains highlights of the study results at a glance. The study also includes a one-page write-up in layman’s terms about the differences between the broad and narrow taxpayer perspectives. 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.