

Broad & Narrow Perspectives

State taxpayers earn 10.4% rate of return on their investment in Terra Community College.

The verdict is in: Terra Community College adds more money to the state treasury than it takes out. Not only does the college pull its own weight, but it also effectively subsidizes other sectors funded by the taxpayers. Absent TCC, taxes would actually have to be raised in order to maintain services in all other sectors at their current levels. The return on investment is considered from two taxpayer perspectives: broad and narrow.

Broad Investment Perspective

In the broad perspective we add up all benefits attributable to TCC, regardless of recipient, and compare the total to the original investment made. This is called the “benefit/cost ratio.” If the ratio is less than 1.0, the investment is not worthwhile; if it is greater, the investment can be considered sound.

For example, a transportation authority might justify a new road by showing that savings in travel time and vehicle expenses accrued by thousands of drivers exceed the project’s cost. Public parks are justified by showing that recreation, scenic, and other values enjoyed by park users exceed the cost of park infrastructure, operation, and the net value of the park’s land and resources not used for other purposes. So the broad perspective counts all benefits, not just those that accrue back to state or local government.

Applying this perspective to TCC, we look at the benefits accruing to various groups among the general public. The students accrue higher earnings as long as they are in the workforce, whereas the public at large accrue the external social benefits (i.e., reduced crime, welfare and unemployment, improved health, and less absenteeism from work). All of these are tallied up and compared to the investments made by state government, or the taxpayers. A broad perspective benefit/cost ratio greater than 1.0 is a minimal indicator of a worthwhile public investment.

Counting benefits and costs in this way, Terra Community College’s benefit/cost ratio is 20. In other words, the cumulative added value attached to each dollar invested will have a present value of \$20 by the end of the students’ working career.

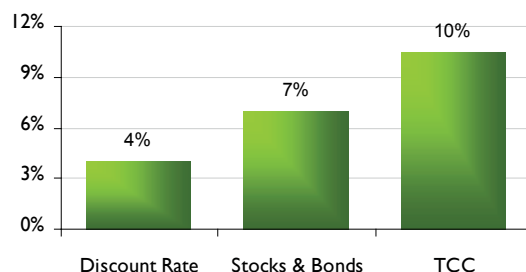
Narrow Investment Perspective

The narrow investment perspective counts only benefits that can be entered into the books of state government. For example, educated workers earn more and thus pay more taxes. Furthermore, because state government bears part of the cost of crime, its budget benefits from education’s crime-reducing effect, and the same is true for other benefits of an educated populace. The bottom line: State government receives returns from its support of Terra Community College in the form of increased tax revenue and savings associated with avoided social costs.

Worthwhile public projects often generate negative narrow perspective returns, because the role of government is to provide services that the public wants but that the business sector may find unprofitable. Considerable funds are spent on public parks, for example, yet they yield little or no direct return. From a narrow investment perspective, taxpayer returns are negative, though the park is justified by the benefits tracked under the broad perspective.

But unlike most government endeavors, funding for TCC generates strong results from *both* broad and narrow perspectives. Economists generally assume a 4% discount rate in analyzing government investments, assuming that governments can obtain unsecured loans at a rate of 4% or receive a 4% return on any excess funds, if they were invested. *Since TCC’s narrow rate of return of 10.4% is greater than 4%, we conclude that the state government actually makes money on the investment. By funding the college, therefore, other recipients of state funding are actually subsidized through the revenues generated by the college.*

Narrow Investment Results



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