



# Analysis of the **Return on Investment and Economic Impact of Education**

THE ECONOMIC VALUE OF  
PALOMAR COMMUNITY COLLEGE DISTRICT

October 2016

# EXECUTIVE SUMMARY

# Executive summary

Palomar Community College District (Palomar CCD) creates value in many ways. The district plays a key role in helping students increase their employability and achieve their individual potential. It provides students with the skills they need to have a fulfilling and prosperous career. Further, it supplies an environment for students to meet new people, increase their self-confidence, and promote their overall health and well-being.

The value of Palomar CCD influences both the lives of students and also the regional economy. The district serves a range of industries in the Palomar CCD Service Area, supports local businesses, and benefits society as a whole in California from an expanded economy and improved quality of life. The benefits created by Palomar CCD even extend to the state and local government through increased tax revenues and public sector savings.

The purpose of this study is to investigate the economic impacts created by Palomar CCD on the business community and the benefits that the district generates in return for the investments made by its key stakeholder groups—students, taxpayers, and society. The region the district serves is defined as the Palomar CCD Service Area and consists of the northern half of San Diego County excluding the coastal ZIP codes. The following two analyses are presented:

- **Economic impact analysis**
- **Investment analysis**

All results reflect student and financial data for Fiscal Year (FY) 2014-15. Impacts on the regional business community are reported under the economic impact analysis. Results are measured in terms of added income. The return on investment to students, taxpayers, and society are reported under the investment analysis. Both analyses are described more fully in the following sections.

# Economic impact analysis

Palomar CCD promotes economic growth in the Palomar CCD Service Area in a variety of ways. The district is an employer and buyer of goods and services, and the living expenses of students benefit local businesses. In addition, Palomar CCD is a primary source of education to the Palomar CCD Service Area residents and a supplier of trained workers to the Palomar CCD Service Area industries.

## OPERATIONS SPENDING IMPACT

Palomar CCD is an important employer in the Palomar CCD Service Area. In FY 2014-15, the district employed 1,545 full-time and part-time faculty and staff. Of these, 58% lived in the Palomar CCD Service Area. Total payroll at Palomar CCD was \$121.3 million, much of which was spent in the region for groceries, rent, dining out, clothing, and other household expenses.

Palomar CCD is itself a large-scale buyer of goods and services. In FY 2014-15 the district spent \$67.9 million to cover its expenses for facilities, professional services, and supplies.

Palomar CCD added \$132.8 million in added income to the region during the analysis year as a result of its day-to-day operations. This figure represents the district's payroll, the multiplier effects generated by the spending of the district and its employees, and a downward adjustment to account for funding that the district received from state and local sources. The \$132.8 million in added income is equivalent to supporting 1,709 jobs.

## IMPACT OF CONSTRUCTION SPENDING

Palomar CCD commissioned contractors to build facilities during the analysis year. The quick infusion of income and jobs that occurred in the county economy as a result of this construction spending is only considered short-term due to the one-time nature of construction projects. Nonetheless, the construction spending had a substantial impact on the county economy in FY 2014-15, equal to \$5.0 million in GRP for the region and the creation of 111 new jobs.

**TABLE 1:** Impacts created by Palomar CCD in FY 2014-15

ADDED INCOME	JOBS
<b>\$132.8 million</b>	<b>1,709</b>
Operations spending impact	
<b>\$5.0 million</b>	<b>111</b>
Construction spending impact	
<b>\$1.9 million</b>	<b>33</b>
Student spending impact	
<b>\$770.9 million</b>	<b>12,836</b>
Alumni impact	
<b>\$910.7 million</b>	<b>14,689</b>
Total impact	

## IMPACT OF STUDENT SPENDING

A number of in-region students would have left the area for other education opportunities if not for the existence of Palomar CCD. While attending the district, these retained students spent \$32.7 million to purchase groceries, rent accommodation, pay for transportation, and so on. A significant portion of these expenditures occurred in the region, generating \$1.9 million in added income in the region economy during the analysis year, which is equivalent to supporting 33 jobs.

## ALUMNI IMPACT

The education and training Palomar CCD provides for region residents results in the greatest impact. As shown in Figure 1, since the district was established, students have studied at Palomar CCD and entered the regional workforce with new skills. Today, thousands of former students are employed in the Palomar CCD Service Area.

During the analysis year, past and present students of Palomar CCD generated \$770.9 million in added income for the region. This figure represents the higher earnings that students earned during the year, the increased output of the businesses that employed the students, and the multiplier effects that occurred as students and their employers spent money at other businesses. This \$770.9 million in added income is equivalent to supporting 12,836 jobs.

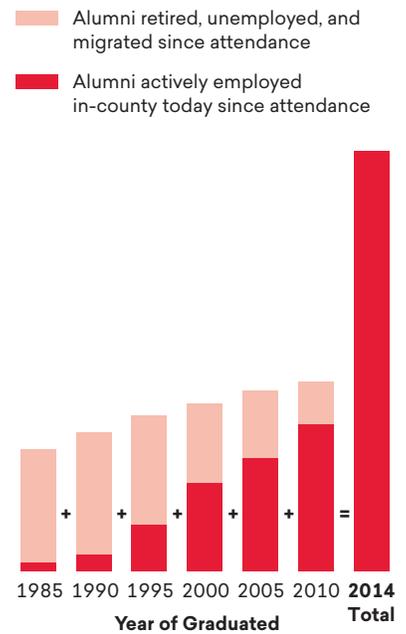
## TOTAL IMPACT

The overall impact of Palomar CCD on the local business community during the analysis year amounted to \$910.7 million in added income, equal to the sum of the operations spending impact, the student spending impact, and the alumni impact. The \$910.7 million in added income was equal to approximately 2.4% of the GRP of the Palomar CCD Service Area. By comparison, this contribution that the district provides on its own is slightly larger than the Accommodation & Food Services industry in the region.

The total impact is also expressed in terms of the jobs supported by the added income; they are calculated by jobs-to-sales ratios specific to each industry. Overall, the \$910.7 million impact supports 14,689 jobs.

A portion of the total \$910.7 million is broken out into an industry-by-industry impact ordered by added income. Table 2 outlines the top industries impacted by Palomar CCD. Because industries have different jobs-to-sales ratios, the associated jobs supported by the Palomar CCD impact differ by industry. Nonetheless, these are impacts that would not have been generated without the district's presence.

**FIGURE 1:** Palomar CCD alumni working in-region today



**TABLE 2:** Top industries impacted by Palomar CCD

TOTAL INCOME (MILLIONS)	JOBS
<b>\$103.2</b>	<b>2,141</b>
<b>Manufacturing</b>	
<b>\$102.7</b>	<b>2,184</b>
<b>Health Care &amp; Social Assistance</b>	
<b>\$86.1</b>	<b>1,025</b>
<b>Professional &amp; Technical Services</b>	
<b>\$76.9</b>	<b>705</b>
<b>Government, Non-Education</b>	
<b>\$55.7</b>	<b>441</b>
<b>Mining</b>	
<b>\$481.0</b>	<b>8,082</b>
<b>All other industries</b>	
<b>\$910.7</b>	<b>14,689</b>
<b>Total impact</b>	

# Investment analysis

Investment analysis is the process of evaluating total costs and measuring these against total benefits to determine whether or not a proposed venture will be profitable. If benefits outweigh costs, then the investment is worthwhile. If costs outweigh benefits, then the investment will lose money and is considered unprofitable. This study considers Palomar CCD as an investment from the perspectives of students, taxpayers, and society. The backdrop for the analysis is the entire California economy.

## STUDENT PERSPECTIVE

In FY 2014-15, Palomar CCD served 33,572 credit students and 2,772 non-credit students. In order to attend college, students paid for tuition, fees, books, and supplies. They also gave up money that they would have otherwise earned had they been working instead of attending college. The total investment made by Palomar CCD's students in FY 2014-15 amounted to \$225.8 million, equal to \$36.3 million in out-of-pocket expenses plus \$189.5 million in forgone time and money.

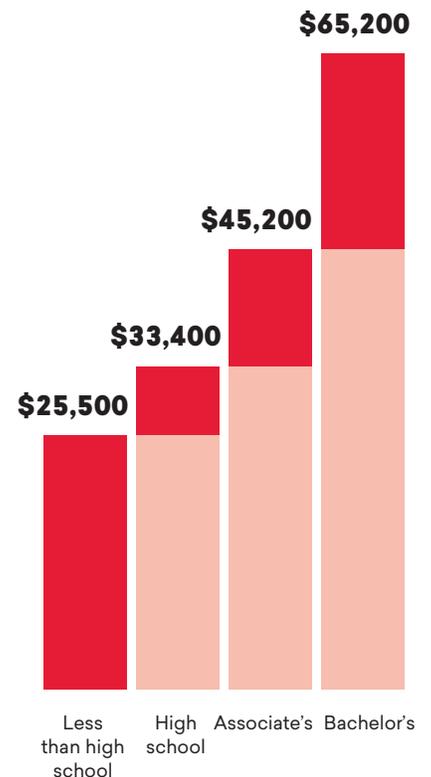
In return for their investment, Palomar CCD's students will receive a stream of higher future earnings that will continue to grow through their working lives. As shown in Figure 2, mean earnings levels at the midpoint of the average-aged worker's career increase as people achieve higher levels of education. For example, the average associate degree completer from Palomar CCD will see an increase in earnings of \$11,700 each year compared to someone with a high school diploma or equivalent. Over a working lifetime, this increase in earnings amounts to an undiscounted value of approximately \$531,000 in higher earnings.

The present value of the higher future earnings that Palomar CCD's students will receive over their working careers is \$1.1 billion. Dividing this value by the \$225.8 million in student costs yields a benefit-cost ratio of 4.9. In other words, for every \$1 students invest in Palomar CCD in the form of out-of-pocket expenses and forgone time and money, they receive a cumulative of \$4.90 in higher future earnings. The average annual rate of return for students is 20.0%. This is an impressive return, especially when compared to the 10-year average 7.2% return to the US stock market (Figure 3).

## TAXPAYER PERSPECTIVE

Palomar CCD generates more in tax revenue than it takes. These benefits to taxpayers consist primarily of taxes that the state and local government will

**FIGURE 2:** Higher earnings by education level at career midpoint in California



Source: Emsi complete employment data.

collect from the added revenue created in the state. As Palomar CCD students earn more, they will make higher tax payments. Employers will also make higher tax payments as they increase their output and purchase more supplies and services. By the end of the FY 2014-15 students' working careers, the state and local government will have collected a present value of \$386.5 million in added taxes.

Benefits to taxpayers consist of the savings generated by the improved lifestyles of students and the proportionally reduced government expenditures. Education is statistically correlated with a variety of lifestyle changes that generate taxpayer savings across three main categories: 1) health, 2) crime, and 3) unemployment. Improved health habits lower the students' demand for national health care services. Students are also less likely to commit crimes, so the demand for law enforcement and criminal justice services is reduced (study references are available in the main report). Students are also more employable, so the demand for welfare and unemployment benefits, such as earnings assistance and welfare benefits, is reduced. For a list of study references to these statistical benefits, please contact the district for a copy of the main report. All of these benefits will generate a present value of \$37.6 million in savings to state and local taxpayers.

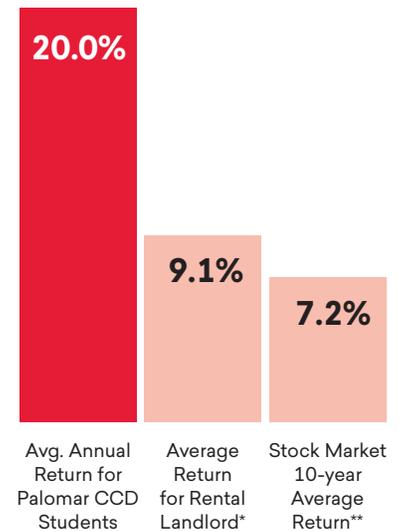
Total benefits to taxpayers equal \$424.1 million, equal to the sum of the added taxes and public sector savings. Comparing this to the taxpayer costs of \$128 million—equal to the funding that Palomar CCD received from the state and local government during the analysis year—yields a benefit-cost ratio of 3.3. This means that for every \$1 of public money invested in Palomar CCD, taxpayers receive a cumulative value of \$3.30 over the course of the students' working lives. The average annual rate of return is 9.5%, a solid investment that compares favorably with other long-term investments in both the private and public sectors (Figure 3).

## SOCIAL PERSPECTIVE

Society as a whole within California benefits from the presence of Palomar CCD in two major ways. The first and largest benefit that society receives is an increased state economic base. As discussed in the previous section, the higher student earnings and increased business output occurs across the state. This raises prosperity in California and expands the economic base for society as a whole.

Benefits to society also consist of the savings generated by the improved lifestyles of students. Similar to the taxpayer section above, education is statistically correlated with a variety of lifestyle changes that generate social savings. Note that these costs are avoided by the consumers, and are distinct from the costs avoided by taxpayers outlined above. Health savings include avoided medical costs associated with smoking, alcoholism, obesity, drug abuse, and mental disorders. Crime savings include reduced security

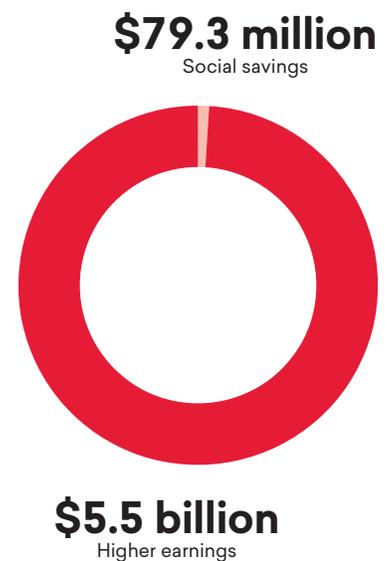
**FIGURE 3:** Student rate of return



\* RealtyTrac's Q3, 2014

\*\* Forbes' S&P 500, 1994-2014.

**FIGURE 4:** Present value of higher earnings and social savings in California



expenditures and insurance administration, lower victim costs, and reduced criminal justice system expenditures. Unemployment savings include the reduced employer contributions towards unemployment claims. For a list of study references to these statistical benefits, please contact the district for a copy of the main report.

Figure 4 shows the present value of the higher earnings and social savings that will occur in California over the working lifetime of the FY 2014-15 student population at Palomar CCD. Higher earnings amounts to a present value of \$5.5 billion due to the increased lifetime earnings of students and associated increases in business output. Social savings amount to \$79.3 million, the sum of health, crime, and unemployment savings in California. Altogether, total benefits to society equal \$5.5 billion (in present value terms).

Society invested \$398.9 million in Palomar CCD educations during the analysis year. This includes all expenditures by Palomar CCD, all student expenditures, and all student opportunity costs. For every dollar of this investment, society as a whole in California will receive a cumulative value of \$13.90 in benefits, equal to the \$5.5 billion in benefits divided by the \$398.9 million in costs. These benefits will occur for as long as Palomar CCD’s FY 2014-15 students remain employed in the state workforce.

## SUMMARY OF INVESTMENT ANALYSIS RESULTS

Table 3 presents the results of the investment analysis for all three of Palomar CCD’s major stakeholder groups—students, taxpayers, and society. As shown, students receive great value for their educational investment. At the same time, the investment made by state and local taxpayers to the district creates a wide range of benefits to society and returns more to government budgets than it costs.

**TABLE 3:** Summary of investment analysis results

	STUDENT PERSPECTIVE	TAXPAYER PERSPECTIVE	SOCIAL PERSPECTIVE
Present value benefits (thousands)	<b>\$1,117,709</b>	<b>\$424,056</b>	<b>\$5,546,814</b>
Costs (thousands)	<b>\$225,803</b>	<b>\$127,990</b>	<b>\$398,919</b>
<b>Net present value (thousands)</b>	<b>\$891,907</b>	<b>\$296,066</b>	<b>\$5,147,895</b>
Benefit-cost ratio	<b>4.9</b>	<b>3.3</b>	<b>13.9</b>
Rate of return	<b>20.0%</b>	<b>9.5%</b>	<b>N/A</b>

\* The rate of return is not reported for the social perspective because the beneficiaries of the investment are not necessarily the same as the original investors.



# Conclusion

The results of this study demonstrate that Palomar CCD creates value from multiple perspectives. The district benefits local businesses by increasing consumer spending in the region and supplying a steady flow of qualified, trained workers into the workforce. It enriches the lives of students by raising their lifetime earnings and helping them achieve their individual potential. It benefits state and local taxpayers through increased tax receipts across the state and a reduced demand for government-supported social services. Finally, it benefits society as a whole in California by creating a more prosperous economy and generating a variety of savings through the improved lifestyles of students.

## ABOUT THE STUDY

Data and assumptions used in the study are based on several sources, including the FY 2014-15 academic and financial reports from the district, industry and employment data from the U.S. Bureau of Labor Statistics and U.S. Census Bureau, outputs of Emsi's Social Accounting Matrix model, and a variety of studies and surveys relating education to social behavior. The study applies a conservative methodology and follows standard practice using only the most recognized indicators of investment effectiveness and economic impact. For a full description of the data and approach used in the study, please contact the district for a copy of the technical report.



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