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ABSTRACT

This paper examines the ways in which the State of Iowa and the local economy benefit from the presence of the Hawkeye Community College (HCC) District. Volume 1 is the Main Report, and Volume 2 includes detailed results by entry level of education, gender and ethnicity. The Hawkeye Community College District paid $17.4 million in direct faculty and staff wages and salaries in fiscal year 2001, and accounts for an additional $112 million in wages and salaries off campus. The colleges serve an unduplicated headcount of 26,074 credit and non-credit students. Approximately 85% of students remain in the local community and thereby generate local community benefits. The existence of HCC in Iowa explains $129.3 million of all annual earnings in the HCC District economy, equal to that of 4,602 jobs. The HCC districts pay wages and salaries, which generate additional incomes as they are spent. Likewise, the aggregate college operating and capital expenditures generate still further earnings. The document argues that every dollar of state or local tax money invested in HCC today will see a return of $11 over the next 30 years. Students benefit from an annual return of 24% on their investment of time and money. The study also quantifies the effects of HCC on reduction of crime, welfare, and unemployment. Appended are: Explaining the Results--A Primer; Methodology for Creating Income Gains by Levels of Education; and Adjusting for the Benefits Available Absent State and Local Government Support. (Contains numerous tables and figures and 41 references.) (NB)

The Socioeconomic Benefits Generated by Hawkeye Community College

Executive Summary

[and]

Volume 1: Main Report

[and]

Volume 2: Detailed Results

M. Henry Robison & Kjell A. Christophersen

March 2003

The Socioeconomic Benefits Generated by Hawkeye Community College

State of Iowa

Executive Summary

3-Mar-2003

M. Henry Robison & Kjell A. Christophersen

CCbenefits Inc.

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Executive Summary

HIGHLIGHTS

- Hawkeye Community College pays $17.4 million annually in direct faculty and staff wages and salaries, and accounts for an additional $112 million in wages and salaries off campus.
- Taxpayers see a real money "book" return of 8.9% on their annual investments in Hawkeye Community College and recover all investments in 12.4 years.
- Students enjoy an attractive 24% annual return on their investment of time and money—for every $1 the student invests in HCC, he or she will receive a cumulative $9.23 in higher future earnings over the next 30 years.
- The State of Iowa benefits from improved health and reduced welfare, unemployment, and crime, saving the public some $3.0 million per year.

INTRODUCTION

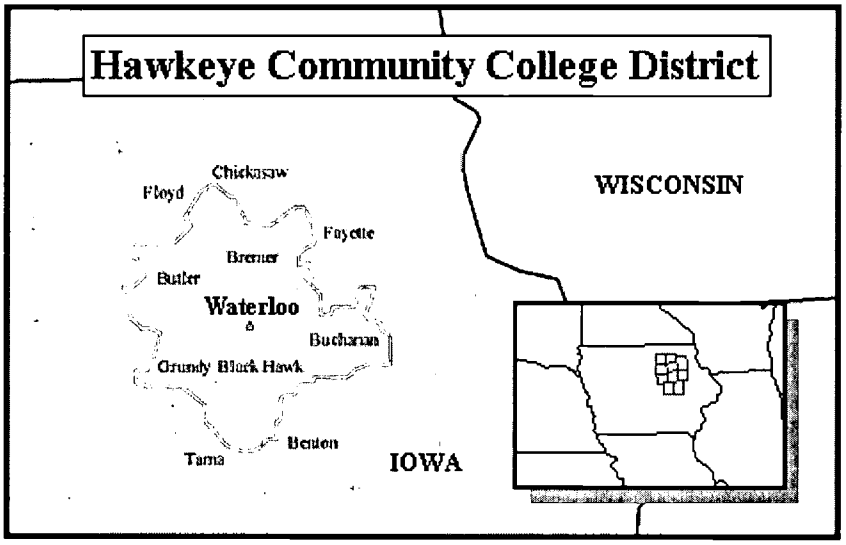
How do the Hawkeye Community College District economy and the State of Iowa benefit from the presence of Hawkeye Community College (HCC)? An obvious question often asked, but rarely answered with more than anecdotes. In this study, CCbenefits, Inc. applied a comprehensive economic model they developed 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 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.

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 Hawkeye Community College," containing the

detailed assumptions, their context, and the computation procedures.



➢ **Regional Perspective—the Hawkeye Community College Economy**

HCC accounts for $129.3 million of all annual earnings in the Hawkeye Community College District economy (see map). The earnings explained by HCC are equal to that of roughly 4,602 jobs. The earnings and job effects break down as follows:

- *HCC Operations and Capital Spending*

HCC pays wages and salaries, which generate additional incomes as they are spent. Likewise, HCC operating and capital expenditures generate still further earnings. Altogether, these earnings account for $25.4 million annually in the Hawkeye Community College District economy (equal to that of 829 jobs).

- *Higher Earnings due to Past Instruction*

Each year students leave HCC and join or rejoin the local workforce. Their added skills translate to higher earnings and a more robust Hawkeye Community College District economy. Based on current enrollment, turnover, and the growth of instruction over time, the local region workforce embodies an estimated 1.4 million credits of past and present instruction (credit and non-credit hours). The accumulated contribution of past and present HCC instruction adds some $103.9 million in annual earnings to the Hawkeye Community College District economy (equal to that of 3,773 jobs).

➢ **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 HCC students will, on average, earn $120 more per year each year they are in the workforce. Alternatively, for every full-time year they attend they will earn an additional $3,359 per year. In the aggregate (all exiting students), the higher earnings amount to some $16.7 million per year for each year they remain in the workforce.

From an investment standpoint, HCC students will enjoy a 24% 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 9.2, i.e., for every $1 the student invests in HCC education, he or she will receive a cumulative of $9.23 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 $14,588,483 in support of HCC 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 $39 per credit per year, counted as an indirect benefit of HCC education. When aggregated across all exiting students, the State of Iowa will benefit from $3.0 million worth of avoided costs per year, broken down as follows:

- *Improved Health*

Area employers in the Hawkeye Community College District will see health-related absenteeism decline by 6,184 days per year, with a corresponding annual dollar savings of $0.7 million. The state will benefit from the health-related savings of 165 fewer smokers and 34 fewer alcohol abusers. The corresponding dollar savings are $488,112 and $268,800 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 Hawkeye Community College District, 25 fewer individuals will be incarcerated per year, resulting in annual savings of $316,815 (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 $348,924 per year. Finally, that people are employed rather than incarcerated adds $153,044 of earnings per year to the economy.

- *Reduced Welfare/Unemployment*

There will be 132 fewer people on welfare, and 29 fewer drawing unemployment benefits per year, respectively, saving some $474,687 and $217,989 per year.

➢ **Taxpayer Return on Investment**

The return on a year's worth of state and local government investment in HCC is obtained by projecting the associated educational benefits into the future, discounting them back to the present, and weighing these against the $14,588,483 state and local taxpayers spent during the analysis year to support the college. The analysis is based on the portion of HCC 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 HCC 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 HCC provides a B/C ratio of 11.4, i.e., every dollar of state or local tax money invested in HCC today returns a cumulative of $11 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.

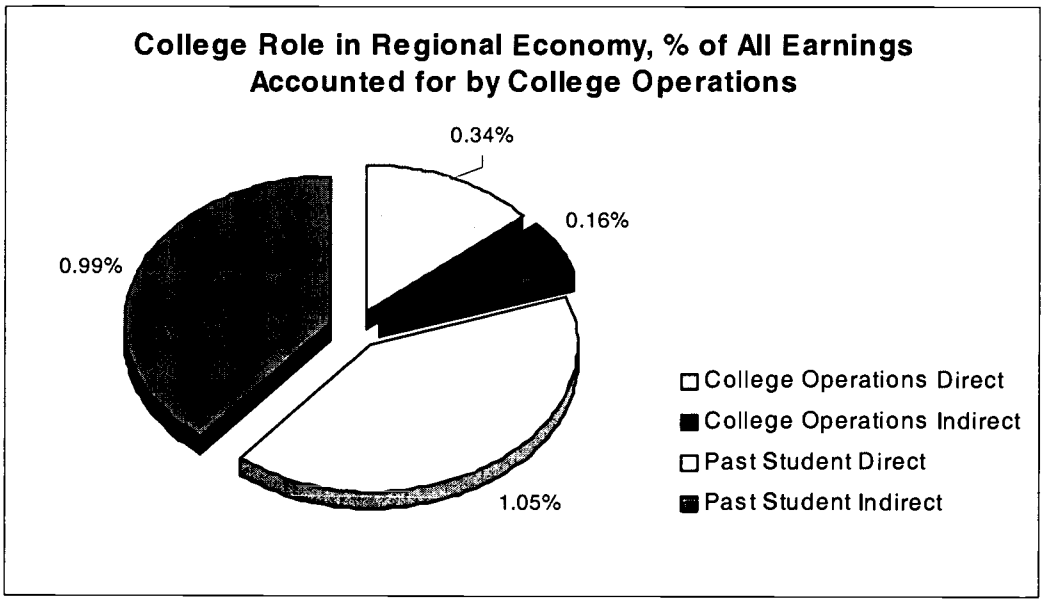
Note here that it is normal for the state government to undertake activities wanted by the public, which are unprofitable in the marketplace. This means that positive economic returns are generally not expected from government investments. From the narrow taxpayer perspective, therefore, even a small 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 HCC, the narrow perspective results greatly exceed the minimum expectations. The results indicate strong and positive returns: a RR of 8.9%, a B/C ratio of 1.9 (every dollar of state or local tax money invested in HCC today returns $1.89), and a short payback period of only 12.4 years.

CONCLUSION

The results of this study demonstrate that HCC 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 HCC operations			$25,415,000
Increment from past student productivity			$103,882,000
Total			$129,297,000
Job equivalent			4,602
Annual Benefits			
Higher earnings			
Aggregate (all students)			$16,738,818
Per Credit			$120
Per year full time equivalent student			$3,359
Social savings			
Aggregate (all students)			$2,961,462
Per Credit			$39
Per year full time equivalent student			$1,081
Investment Analysis	**RR**	**B/C Ratio**	**Payback (Years)**
Students	23.9%	9.2	6.4
Taxpayers: Broad Perspective	NA	11.4	NA
Taxpayers: Narrow Perspective	8.9%	1.9	12.4



In sum, the graph shows that the college explains a total of 2.5% of all earnings ($5.09 billion) generated from all sources in the economic region.

This short summary report is one of five products generated for this impact study. In addition, one long report intended for economists and CC institutional researchers (85 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. 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.

The Socioeconomic Benefits Generated by Hawkeye Community College

State of Iowa

Volume 1: Main Report

3-Mar-2003

M. Henry Robison & Kjell A. Christophersen

CCbenefits Inc.

www.ccbenefits.com

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CCbenefits Inc. is a company created in collaboration with the Association of Community College Trustees (ACCT) to provide economic analysis services to 2-year technical and community colleges. Questions of a technical nature concerning the approach, assumptions, and/or results should be directed to CCbenefits, Inc., c/o Drs. Kjell Christophersen and Hank Robison, 1150 Alturas Dr., Suite 102, Moscow ID 83843, phone: 208-882-3567, fax: 208-882-3317, e-mail: ccbenefits@moscow.com.

ACRONYMS

HCC	Hawkeye Community College
AD	Associate Degree
ABE	Adult basic education
ACCT	Association of Community College Trustees
B/C	Benefit–cost ratio
CC	Community College
CHE	Credit hour equivalent
ESL	English as a second language
GED	General Equivalency Diploma (also Education Development Certificate)
HS	High school
IO	Input–output analysis
NCF	Net cash flow
NPV	Net present value
REIS	Regional Economic Information System
RR	Rate of return
TC	Technical College
TD	Technical Diploma

Preface

The Association of Community College Trustees (ACCT) contracted with the authors in 1999 to create the model used in this study. The original vision was simple—to make available to colleges a generic and low cost yet comprehensive tool that would allow them to estimate the economic benefits accrued by students and taxpayers as a result of the higher education achieved. In short, it only makes economic sense for the students to attend college if their future earnings increase beyond their present investments of time and money; likewise, taxpayers will only agree to fund colleges at the current levels or increase funding if the economic benefits exceed the costs.

An important requirement of the ACCT vision was that the model reach beyond the "standard" study—the computation of the simple multiplier effects stemming from the annual operations of the colleges. Although the standard study was part and parcel of the model ultimately developed, it was only a relatively small part. The current model also accounts for the economic impacts generated by past students who are still applying their skills in the local workforce; and it accounts for a number of external social benefits such as reduced crime, improved health, and reduced welfare and unemployment, which translate into avoided costs to the taxpayers. All of these benefits are computed for each college and analyzed. The analysis is based on regional data adjusted to local situations to the greatest extent possible.

Although the written reports generated for each college are similar in text, the results differ widely. **This, however, should not be taken as an indication that some colleges are doing a better job than others in educating the students.** Differences among colleges are a reflection of the student profiles, particularly whether or not the students are able to maintain their jobs while attending, and the extent to which state and local taxpayers fund the colleges. Some students give up substantial earnings while attending college because employment opportunities are few and far between. In other cases they are able to work while attending because the area has an abundance of opportunities. Therefore, if the average student rate of return for College A is 15%, and the rate of return for College B is 20%, that does not mean that B is doing a better job than A. Rather, it is attributable to the employment opportunities in the region, and to the fact that one college may cater more to women than to men, or to minorities, and/or to different kinds of students such as transfer, workforce or retired, etc. In turn, the student body profiles are associated with their own distinct earnings functions reflecting

these employment, gender and ethnicity differences. The location of the college, therefore, dictates the profile of the student body, which, to a large extent, translates into the magnitudes of the results. In this sense, it could be that College A, which has a 15% student rate of return, is actually a better or more efficiently managed school than College B, which has a 20% student rate of return. The qualitative difference in management efficiency is not equal to the difference between the two returns.

Chapter 1
INTRODUCTION

OVERVIEW

Community colleges (CCs) generate a wide array of benefits. Students benefit directly from higher personal earnings, and society at large benefits indirectly from cost savings (avoided costs) associated with reduced welfare and unemployment, improved health, and reduced crime. Higher education, however, requires a substantial investment on the parts of the students and society as a whole. Therefore, all education stakeholders—taxpayers, legislators, employers, and students—want to know if they are getting their money's worth. In this study, Hawkeye Community College (HCC) investigates the attractiveness of its returns relative to alternative public investments. The benefits are presented in three ways: 1) annual benefits, 2) present values of future annual benefits (rates of return and benefit-cost ratios, etc.), and 3) regional economic benefits, including returns to the business community.

The study has four chapters and three appendices. **Chapter 1** is an overview of the benefits measured. **Chapter 2** details the major assumptions underlying the analysis. **Chapter 3** presents the main socioeconomic benefits, returns to business, and regional economic results. Finally, **Chapter 4** presents a sensitivity analysis of some key assumptions—tracking the changes in the results as assumptions are changed. **Appendix 1** is a short primer on the context and meaning of the investment analysis results—the net present values (NPV), rates of return (RR), benefit/cost ratios (B/C), and the payback period. **Appendix 2** explains how the earnings related to higher education data were derived. **Appendix 3** provides a detailed technical/theoretical explanation of how benefits must be adjusted if the college can still stay open absent state and local government support.

ANNUAL PRIVATE AND PUBLIC BENEFITS

Private benefits are the higher earnings captured by the students; these are well known and well documented in economics literature (see for example Becker, 1964 and Mincer 1958, plus many others listed in the references at the end of this report). Less well known and documented are the indirect benefits, or what economists call *positive*

externalities, which are a collection of public benefits captured by society at large, such as improved health and lifestyle habits, lower crime, and lower incidences of welfare and unemployment. These stem from savings to society as taxpayer-provided services are reduced. The dollar savings (or avoided costs) associated with reduced arrest, prosecution, jail, and reform expenditures are estimated based on published crime statistics arranged by education levels. Likewise, statistics that relate unemployment, welfare, and health habits to education levels are used to measure other savings. The annual economic impacts are presented in three ways: 1) per credit-hour equivalent (CHE), defined as a combination of credit and non-credit attendance,[1] 2) per student, and 3) in the aggregate (statewide).

PRESENT VALUES OF FUTURE BENEFITS

The annual impacts continue and accrue into the future, and are quantified and counted as part of the economic return of investing in education. This lifetime perspective is summarized as *present values*–a standard approach of projecting benefits into the future and discounting them back to the present. The present value analysis determines the economic feasibility of investing in CC education—i.e., whether the benefits outweigh the costs. The time horizon over which future benefits are measured is the retirement age (65) less the average age of the students. [2]

The values of future benefits are also expressed in four ways: 1) net present value (**NPV**) total, per CHE, and per student, 2) rate of return (**RR**) where the results are expressed as a percent return on investment, 3) benefit/cost (**B/C**) ratio—the returns per dollar expended, and 4) the payback period—the number of years needed to fully recover the investments made (see **Appendix 1** for a more detailed explanation of the meaning of these terms).

[1] Instruction hours are not the same as credit hours. CCs prepare people both for jobs and for degrees. Many attend for short periods and then leave to accept jobs without graduating. Others simply enroll in non-academic programs. Nonetheless, the CHEs earned will positively impact the students' lifetime earnings and social behavior.

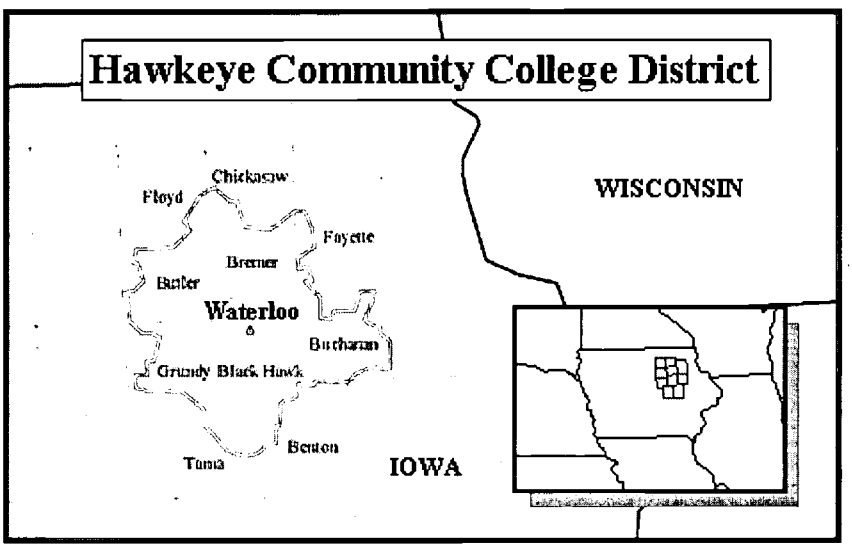
[2] Retirement at age 65 is only our assumption. In some areas people retire earlier, in others later. Whether they retire at 62, 65, or 67, this will not change the magnitudes of the results by much. The assumption only affects the time horizon over which the analysis is conducted.

REGIONAL ECONOMIC AND LOCAL BUSINESS COMMUNITY BENEFITS

The benefits of a robust local economy are many: jobs for the young, increased business revenues, greater availability of public investment funds, and eased tax burdens. The activities of HCC benefit local businesses directly by raising the skill level of the local labor force and providing opportunities for direct contract training of employees. Local businesses also benefit as the presence of a trained labor force works to attract new industry and increase the efficiency, competitiveness and output of existing industry. All these together spell a more effective and robust local economy.

In this study we show the impact of HCC as a creator of earnings in the local economy. Increased earnings are displayed by industrial sector, and the role of HCC in the local economy is then indicated by the percentage of sector-by-sector earnings explained by the college. The geographic boundaries of the regional economy used in this report are shown in **Figure 1.1.** In general, these CC-linked regional earnings fall under two categories: 1) earnings generated by the annual operating expenditures of the college, and 2) earnings attributable to the CC skills embodied in the local workforce.

Figure 1.1: The Economic Region



Note: the map shows the district boundary as a subset of the whole counties included in the economic region. The whole counties comprise the backdrop for the calculation of the economic impacts.

Chapter 2
DATA SOURCES AND ASSUMPTIONS

INTRODUCTION

To the extent possible, documented statistics obtained from several databases and from the colleges themselves were used to craft the assumptions on which the results are based. In the few cases where hard data were scarce, however, institutional researchers on the scene applied well-informed judgments and estimations on the basis of their intimate knowledge of the college and the student body.

This chapter contains six assumption sections, all based on various data imbedded in the analytic model: 1) the HCC profile; 2) annual earnings by education levels; 3) the social benefit assumptions (health, crime, and welfare/unemployment); 4) education costs; 5) other assumptions (the discount rate used, health, crime, and welfare cost statistics, etc.); and 6) assumptions pertaining to regional economic effects.

COLLEGE PROFILE

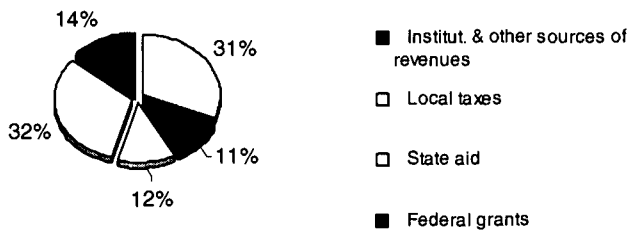
Faculty, Staff, and Operating Budget

HCC employed 322 full- and 217 part-time faculty and staff in year 2002 amounting to a total annual payroll of some $17.4 million. **Table 2.1** shows HCC's annual revenues by funding source: a total of $33 million. Two main revenue sources—private and public—are indicated. Private sources include tuition and fees (31.4%) plus 10.9% from other private sources (such as contract revenues, interest payments and the like). Public funding is comprised of local taxes (11.8%), state aid (32.1%), and federal grants (13.8%). These budget data are critical in identifying the annual costs of educating the CC student body from the perspectives of the students and the taxpayers alike. The same information is displayed in **Figure 2.1** in the form of a pie chart.

Table 2.1. Aggregate Revenues

Sources	Revenues	Total	% of Total
Private Funding			
Tuition payments	$10,434,323		31.4%
Institut. & other sources of revenues	$3,616,764	$14,051,087	10.9%
Public Funding			
Local taxes	$3,909,415		11.8%
State aid	$10,679,068		32.1%
Federal grants	$4,582,420	$19,170,903	13.8%
Total		$33,221,990	100%

Figure 2.1. Revenues



The Students

Students attend community colleges for different reasons: to prepare for transfer to four-year institutions, to obtain Associate Degrees or Certificates in professional/technical programs, to obtain basic skills, for retraining purposes, or perhaps to take refresher courses or participate in non-credit programs. Students also leave for various reasons—they may have achieved their educational goals or decided to interrupt their college career to work full-time. **Tables 2.2 – 2.4** summarize the student body profile. The HCC unduplicated student body (headcount) is 26,074 (fiscal 2002 enrollment). This total consists of both credit and non-credit students.

Some students forego earnings entirely while attending college while others may hold full or part-time jobs. Information about student employment plays a role in determining the *opportunity cost* of education incurred by the students while attending

HCC.[3] **Table 2.2** rows labeled "% of students employed while attending college" and "% of full-time earning potential" provide the percentage estimates of the students who held jobs (94%) while attending HCC, and how much they earned (66%) relative to full-time employment (or what they would statistically be earning if they did not attend HCC). The former is a simple percent estimate of the portion of the student body working full or part-time. The latter is a more complex estimate of their earnings relative to their earning power if they did not attend college (i.e., recognizing that several students may hold one or more part-time jobs which pay minimum wage while attending college).

Table 2.2. Student Body Profile

		Values
Total headcount of unduplicated credit students		6,536
Total headcount of unduplicated non-credit students		19,538
Total unduplicated enrollment, all campuses		26,074
Enrollment on campus for which analysis is carried out	100%	26,074
% of students employed while attending college		94%
% of full-time earning potential		66%
Students remaining in the local community after leaving		85%
Attrition rate over time (leaving local community)		25%
"Settling In" factors (years):		
Completing Associate Degree		2.0
Completing Certificate		0.5
Non-completing transfer track		2.5
Non-completing workforce		0.0
ABE/ESL/GED		0.5

As indicated in the table, it is estimated that 85% of the students remain in the local community (as defined in **Figure 1.1**) and thereby generate local community benefits. The remaining 15% leave the community and are not counted as contributing to regional economic development. The 85% local retention rate applies only to the first year, however. We assume that 25% of the students, and thus associated benefits, will leave the area over the next 30 years due to attrition (e.g., retirement, out-migration, or death).

The last five items in **Table 2.2** are *settling-in* factors—the time needed by students to settle into the careers that will characterize their working lives. These factors are adapted from Norton Grubb (June 1999). Settling-in factors have the effect of delaying the onset of the benefits to the students and to society at large. Thus, we assume that for

[3] The opportunity cost is the measure of the earnings foregone; i.e., the earnings the individual would have collected had he or she been working instead of attending HCC.

transfer track students, the earnings benefits will be delayed for at least 2.5 years to account for the time spent subsequently at 4-year colleges.

Entry-Level Education, Gender, and Ethnicity

Table 2.3 and **Figure 2.2** show the education level, gender, and ethnicity of the HCC student body. This breakdown is used only to add precision to the analysis, not for purposes of comparing between different groups. Five education entry levels are indicated in approximate one-year increments, ranging from less than HS to post AD. These provide the platform upon which the economic benefits are computed.

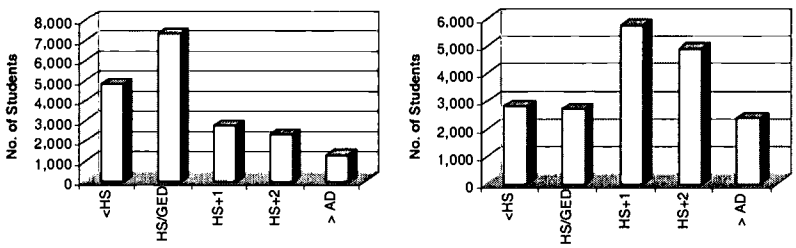
The *entry level* characterizes the education level of the students when they first enter the college; this is consistent with the way most colleges keep their records. The analysis in this report, however, is based on the educational achievements of the students during the current year. As not all students reported in the enrollment figures for the fiscal year are in their first year of college, an adjustment was made to account for upper class students who had accumulated credits during their community college experience and moved up from the <HS/GED category. For this reason, the education levels of the student body must also be estimated for the beginning of the analysis year. Thus, of the 9,434 white males who first entered with HS/GED, it is estimated that only 2,230 still remain in that category at the beginning of the analysis year, meaning that 7,204 students have actually moved up from the "HS/GED equivalent" category to the "1-year post HS or less" category or beyond since they first entered HCC.[4] (Note that the "Entry Level" and "Begin Year" columns always add to the same total.) Differences between the two columns reflect a redistribution of students from entry level to where they are at the beginning of the analysis year. The assumptions underlying the process of redistributing the students from the "Entry Level" to "Begin Year" columns are internal to the economic model—they are designed to capture the dynamics of the educational progress as the students move up the educational ladder beyond their initial entry level.

[4] These calculations are internal to the model, based on parameters such as the frequency of "stop outs" and other parameters that characterize how typical CC students progress over time in their college career from when they first started up to the analysis year.

Table 2.3. Education Entry Level of Student Body

	White Male		Minority Male		White Female		Minority Female		Total	
Entry Level	Entry Level	Begin Year	Entry Level	Begin Year	Entry Level	Begin Year	Entry Level	Begin Year	Entry Level	Begin Year
< HS/GED	521	304	0	0	1,016	593	0	0	1,538	897
HS/GED equivalent	9,434	2,230	1,016	228	10,841	2,656	1,631	366	22,923	5,479
1 year post HS or less	308	5,212	0	538	458	6,093	149	938	915	12,780
2 years post HS or less	234	2,398	0	220	324	2,875	112	510	669	6,004
> AD	29	382	0	31	0	423	0	79	29	914
Total	10,526	10,526	1,016	1,016	12,640	12,640	1,892	1,892	26,074	26,074

Figure 2.2. Student Body Education Level: Entry vs. Beginning of Analysis Year



The Achievements

Table 2.4, along with **Figures 2.3** and **2.4**, shows the student breakdown in terms of analysis year academic pursuits and/or achievements according to six categories: 1) retirees and/or self-enrichment students, 2) Associate Degree completers, 3) Diploma and Certificate completers, 4) all transfer students, 5) all workforce students, and 6) ABE/ESL students.[5]

As indicated in the table, students achieving their graduation goals would be those completing Associate Degrees or Certificates (3.0% and 1.5%, respectively). The majority of students complete college credits, and either fulfill their educational needs, or return the following year to continue to work toward their goals (18.8% + 64.0% = 82.8% in the transfer track and workforce categories, respectively). The retired and leisure students (7.0%) and ABE/ESL/GED students (5.8%) complete the breakdown of the student body. The retired students are simply backed out of the analysis altogether on the assumption that they do not attend HCC to acquire skills that will increase their earnings. ABE/ESL/GED students are assumed to have a lower percentage impact than other students, because the end product of their education is to arrive at the "starting

gate" on an equal basis with others. This does not mean that ABE/ESL/GED education has lower value; it simply means that these students must complete an extra step before they can compete effectively in the job market and reap the benefits of higher earnings.

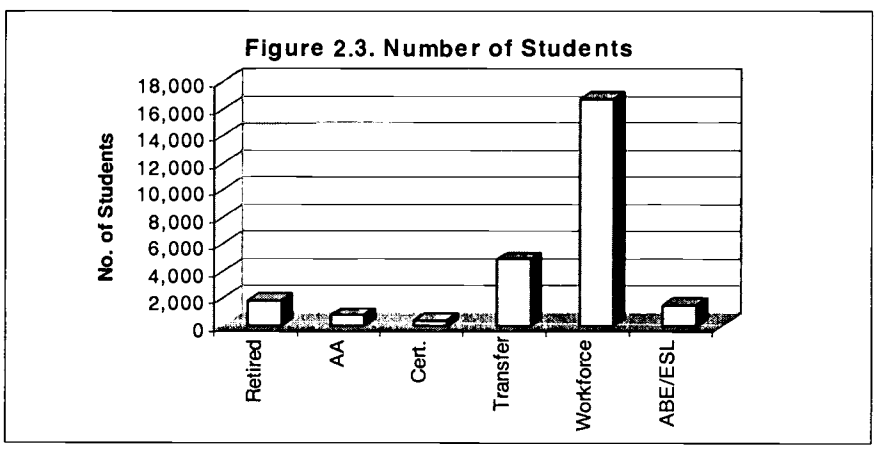
The fifth column shows the average age of the students generating the benefits (excluding retirees). The time horizon for the analysis is 40 years, which is the difference between the average age (24.8 years) and retirement age (65 years).

As indicated in Column 6, the average Associate Degree and Certificate student completed 23.5 and 28.0 CHEs of study, respectively, during the analysis year. The total number of CHEs completed during the year of analysis for the entire student body is 136,513. Finally, the last column shows the average time the students are actually in residence on campus during the analysis year. This information is needed to determine the opportunity cost of their education.

Table 2.4. Levels of Achievement

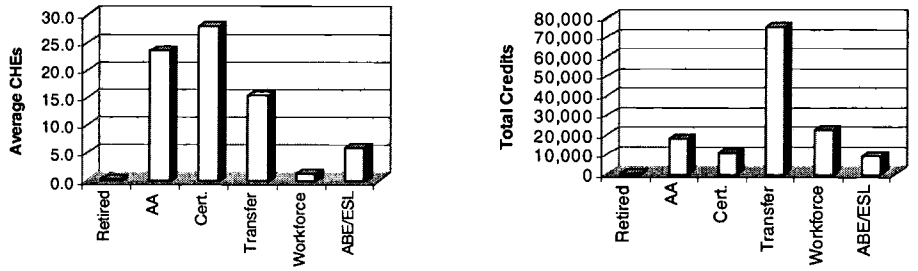
Student Body	Student Distribution	Headcount Credit and Non-Credit	Avg. Age	CHEs This Year	Total Credits	# Years Resid.
Retired & Court-required students	7.0%	1,825	0	0.4	657	0.01
Completing AA	3.0%	782	24	23.5	18,382	0.78
Completing Certificate	1.5%	378	27	28.0	10,586	0.93
Continuing transfer track	18.8%	4,902	22	15.3	74,999	0.51
Continuing workforce & non-credit	64.0%	16,687	25	1.4	22,893	0.05
ABE/ESL/GED	5.8%	1,499	31	6.0	8,996	0.20
Total or weighted averages	100.0%	26,074	24.8	5.6	136,513	
Credits required for one full-time year equivalent of study					30	

Note: weighted average of CHEs per year does not include the retired students



[5] ABE/ESL = Adult basic education and English as a second language

Figure 2.4. Average and Total CHEs Earned for the Analysis Year



ANNUAL PRIVATE BENEFITS

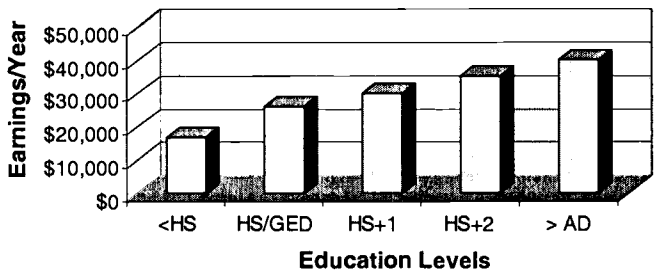
The earnings statistics in **Table 2.5,** on which the benefit estimates (reported in **Chapter 3** below) are based, reflect all occupations (technical and non-technical). The earnings statistics are also displayed in **Figure 2.5**. The lower the education level, the lower the average earnings, regardless of the subject matters studied. The distinguishing feature among the achievement categories, therefore, is the number of CHEs completed. Statistics indicate that earnings are highly correlated with education, but correlation does not necessarily mean causation. Higher education is not the only factor explaining the private and public benefits reported in the statistics. Other variables such as ability, family background, and socioeconomic status play significant roles. The *simple correlation* between higher earnings and education nonetheless defines the *upper limit* of the effect measured. Our estimates of higher education's impact on earnings are based on a survey of recent econometric studies. A literature review by Chris Molitor and Duane Leigh (March, 2001) indicates that the upper limit benefits defined by correlation should be discounted by 10%. Absent any similar research for the social variables (health, crime, and welfare and unemployment), we assume that the same discounting factor applies as well to the public benefits.

As education milestones are achieved, students move into higher levels of average earnings. **Table 2.5** shows average earnings by one-year education increments, linked to the gender and ethnicity profile of the HCC student body. The differences between the steps are indicated in the last column. We also assume that *all* education has value; and thereby attribute value to students completing less than full steps as well. Specific detail on **Table 2.5** data sources and estimating procedures is found in **Appendix 2.**

Table 2.5. Weighted Average Earnings

Entry Level	Average Earnings	Diff.
1 short of HS/GED	$16,674	NA
HS/GED equivalent	$25,977	$9,303
1-year Certificate	$30,135	$4,158
2-year Associate Degree	$35,432	$5,297
1 year post Associate Degree	$40,343	$4,911

Figure 2.5. Average Earnings by Education Levels



ANNUAL PUBLIC BENEFITS

Both students and society at large benefit from higher earnings. Indeed, the principal motivation for publicly funded higher education is to raise the productivity of the workforce and the incomes that the students will enjoy once they complete their studies. Society benefits in other ways as well. Higher education is associated with a variety of lifestyle changes that generate savings; e.g., reduced welfare and unemployment, improved health, and reduced crime. Note that these are *external* or *incidental* benefits of education (see box). Colleges are created to provide education, not to reduce crime, welfare and unemployment, or improve health. The fact that these incidental benefits occur and can be measured, however, is a bonus that enhances the economic attractiveness of the college operations. It should not be taken to mean that taxpayers should channel more money to colleges on the strength of these external benefits. Our purpose is simply to bring to the attention of education stakeholders that the activities of HCC impact society in many more ways than simply the education it provides. In so doing, we have identified and measured some social benefits obviously related to

educational achievements and included them in the mix of impacts generated by the college.

Assuming state and local taxpayers represent the public, the public benefits of higher education can be gauged from two perspectives, 1) a *broad* perspective that tallies all benefits, and 2) a *narrow* perspective that considers only changes in the revenues and expenditures of state and local government.

Higher Earnings

Broad Perspective: Higher education begets higher earnings. The economy generates more income than it would without the CC skills embodied in the labor force. From the broad taxpayer perspective, the total increase in regional earnings is counted as benefits of CC education, adjusted down by the alternative education variable in **Table 2.9** (16.0%)—these students would still attend college elsewhere even if HCC were not present.

The Beekeeper Analogy

The classic example of a positive externality (sometimes called "neighborhood effect") in economics is that of the private beekeeper. The beekeeper's only intention is to make money by selling honey. Like any other business, the beekeeper's receipts must at least cover his operating costs. If they don't, he will shut down.

But from society's standpoint there is more. Flower blossoms provide the raw input bees need for honey production, and smart beekeepers locate near flowering sources such as orchards. Nearby orchard owners, in turn, benefit as the bees spread the pollen necessary for orchard growth and fruit production. This is an uncompensated external benefit of beekeeping, and economists have long recognized that society might actually do well to subsidize positive externalities such as beekeeping.

CCs are in some ways like the beekeepers. Strictly speaking, their business is in providing education and raising people's incomes. Along the way, however, external benefits are created. Students' health and other lifestyles are improved, and society indirectly benefits from these just as orchard owners indirectly benefit from the location of beekeepers. Aiming at an optimal expenditure of public funds, the CCbenefits model tracks and accounts for many of these external benefits, and compares them to the public cost (what the taxpayers agree to pay) of CC education.

Narrow Perspective: Higher regional earnings translate into higher state and local *tax collections*. In the narrow taxpayer perspective we assume that the state and local authorities will collect 16.5% of the higher earnings in the form of taxes—the estimated composite of all taxes other than the federal income taxes.[6]

[6] The tax data are obtained from the U.S. Census Bureau. See also **Appendix 2.**

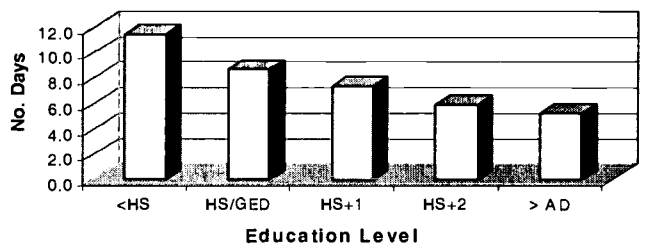
Health Savings

The improved health of students generates savings in three measurable ways: 1) lower absenteeism from work, 2) reduced smoking, and 3) reduced alcohol abuse (**Table 2.6**; see also **Figures 2.6-2.8**). These variables are based on softer (i.e., less-documented) data. In general, statistics show a positive correlation between higher education and improved health habits. The table shows the calculated reductions in the incidences of smoking and alcohol abuse as a function of adding the higher education, also linked to the gender and ethnicity profile of the HCC student body. Recall from above, the health savings are reduced by 10% in recognition of causation variables not yet identified.

Broad Perspective: The benefits from reduced absenteeism are equal to the average earnings per day multiplied by the number of days saved (less the students covered by the alternative education variable, as above). These are benefits that accrue largely to employers. Smoking and alcohol-related savings accrue mostly to the individuals who will *not* have to incur the health-related costs. In the broad taxpayer perspective, however, these benefits accrued to employers and individuals are also public benefits.

Narrow Perspective: Taxpayers benefit from reduced absenteeism to the extent that the state and local government is an employer. Accordingly, we assume a taxpayer's portion of absenteeism savings at 13.5%, equal to the estimated public portion of employment in the region.[7] As for smoking and alcohol-related savings, the taxpayers benefit to the extent that state and local health subsidies (to hospitals, for example) are reduced. We assume that 6% of the total benefits can be counted as taxpayer savings.

Figure 2.6. Days of Absenteeism by Education Levels



[7] The ratio of state and local earnings over total earnings in the US (Regional Economic Information System—REIS, Bureau of Economic Analysis, Dept. of Commerce, 1998)

Figure 2.7. Average Incidence of Smoking by Education Levels

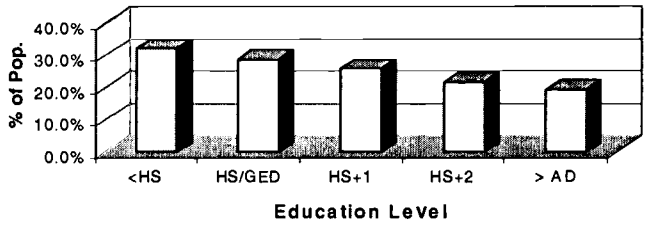


Figure 2.8. Average Incidence of Alcohol Abuse

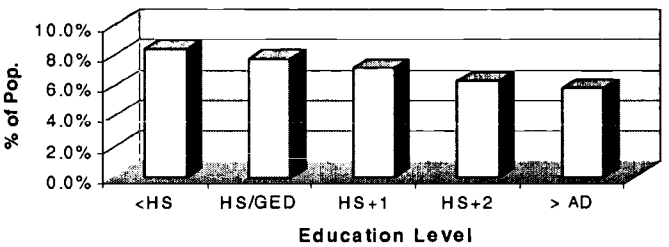


Table 2.6. Reduced Absenteeism, Smoking and Alcohol Habits

	Absenteeism		Smoking		Alcohol Abuse	
Education Level	Days	%/Year	Average	Reduction	Average	Reduction
< HS/GED	11.5	4.4%	32.1%	NA	8.4%	NA
HS/GED equivalent	8.7	3.4%	28.7%	10.7%	7.8%	8.0%
1 year post HS or less	7.4	2.9%	25.7%	10.4%	7.2%	7.7%
2 years post HS or less	6.0	2.3%	21.6%	16.1%	6.3%	12.0%
> AD	5.3	2.0%	19.3%	10.4%	5.8%	7.6%

1. Absenteeism: U.S. Department of Labor, Bureau of Labor Statistics, Division of Labor Force Statistics, ftp://ftp.bls.gov/pub/special.requests/lf/aat46.txt

2. Smoking: *Health*, United States, 2001, Table 61: Centers for Disease Control and Prevention; National Center for Health Statistics; and *The Economic Costs of Smoking in the United States and the Benefits of Comprehensive Tobacco Legislation*, U.S. Treasury Department, http://www.ustreas.gov/press/releases/docs/tobacco.pdf

3. Alcoholism: *Health Promotion and Disease Questionnaire* of the 1990 National Health Interview Survey of the Center for Health Statistics; and National Institute on Drug Abuse and the National Institute on Alcohol Abuse and Alcoholism,http://www.nida.nih.gov/EconomicCosts/Index.html.

Crime Reduction Benefits

The first column of **Table 2.7** relates the probabilities of incarceration to education levels—incarceration drops on a sliding scale as education levels rise (linked to the gender and ethnicity profile of the HCC student body). The percentage reductions are based on total prison population relative to the population at large.[8] The implication is, as people achieve higher education levels, they are statistically less likely to commit crimes. The difference between before and after comprises the benefit attributable to education (see also **Figure 2.9**).

We identify three types of crime-related expenses: 1) the expense of incarceration, including prosecution, imprisonment, and reform, 2) victim costs, and 3) productivity lost as a result of time spent in jail or prison rather than working. As with our other social statistics, crime-related expenses are reduced by 10% in recognition of other causation factors.

Broad Perspective: From the broad taxpayer perspective, all reductions in crime-related expenses are counted as a benefit (less the students covered by the alternative education variable, as above).

Narrow Perspective: We assume that nearly all (80%) of the incarceration savings accrue to the state and local taxpayers—federal funding covers the remainder. Crime victim savings are avoided costs to the potential victims, not to the taxpayers. As such, we claim none of these as taxpayer savings. Finally, we apply our "composite" state and local government average tax rate (16.5%) to the added productivity of persons *not* incarcerated to arrive at the taxpayer benefits.

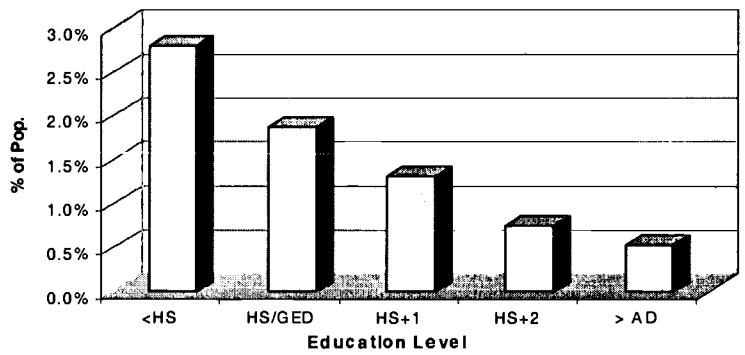
[8] See also Beck and Harrison: http://www.ojp.usdoj.gov/bjs/abstract/p00.htm.

Table 2.7. Incarceration Rates

Education Level	Average	Reduction
< HS/GED	2.8%	NA
HS/GED equivalent	1.9%	33.2%
1 year post HS or less	1.3%	29.9%
2 years post HS or less	0.7%	42.8%
> AD	0.5%	28.6%

1. *Literacy Behind Walls*, National Center for Education Statistics, Prison Literacy Programs, DIGEST No. 159 Literacy in Corrections, Correctional Educational Association,
2. T. P. Bonczar & Alan J. Beck; *Lifetime Likelihood of Going to State or Federal Prison*, US Department of Justice, Office of Justice Programs, March 1997.
3. *Criminal Justice Expenditure and Employment*, Extracts Program (CJEE), author: Sidra Lea Gifford, askbjs@ojp.usdoj.gov (202) 307-0765, 12/14/00.

Figure 2.9. Incidence of Incarceration



Welfare and Unemployment Reduction Benefits

Higher education is statistically associated with lower welfare and unemployment. **Table 2.8** and **Figure 2.10** relate the probabilities of individuals applying for welfare and/or unemployment assistance to education levels (linked to the gender and ethnicity profile of the HCC student body). As above, all welfare and unemployment savings are reduced by 10% in recognition of other causation factors.

Broad Perspective: Reduced welfare and unemployment claims are counted in full as benefits in the broad taxpayer perspective (less the students covered by the alternative education variable, as above).

Narrow Perspective: Local taxpayer benefits from reduced welfare are limited to 16%--the extent to which the state and local taxpayers subsidize the welfare system. None is claimed for unemployment, because none of these costs are borne by the state taxpayers.

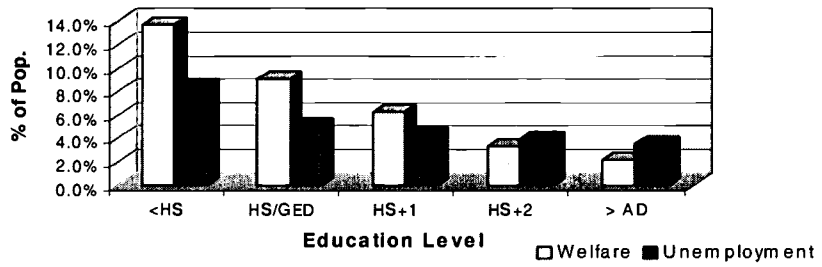
Table 2.8. Welfare & Unemployment

	Welfare		Unemployment	
Education Level	Average	Reduction	Average	Reduction
< HS/GED	13.8%	NA	8.5%	NA
HS/GED equivalent	9.1%	33.5%	5.1%	39.7%
1 year post HS or less	6.3%	31.4%	4.3%	15.7%
2 years post HS or less	3.3%	46.6%	4.0%	8.3%
> AD	2.2%	33.5%	3.6%	8.6%

1. Temporary Assistance for Needy Families, TANF Program 3rd annual report to Congress, US Dept of Health and Human Resources, Table 10:12.

2. The Heritage Foundation, *Means-Tested Welfare Spending: Past and Future Growth*, Testimony by Robert Rector, (3/07/01).

Figure 2.10. Welfare and Unemployment



COSTS

There are two main cost components considered in the analytic framework: 1) the cost incurred by the student, including the expenses for tuition and books, and the opportunity cost of his or her time (represented by the earnings foregone while attending HCC) and, 2) the cost incurred by state and local government taxpayers, which is part of the college's operating and capital costs (the budget—see **Table 2.1**). These are briefly discussed below.

Opportunity Cost of Time

The opportunity cost of time is, by far, the largest cost. While attending HCC, most students forego some earnings, because they are not employed or are employed only part-time. The assumptions are discussed in conjunction with **Table 2.2** above. For the non-working students, the opportunity cost is the full measure of the incomes not earned during their CC attendance. For students working part-time, the opportunity cost is the difference between what they could make full-time less what they are making part-time. No opportunity cost of time is charged for the fully employed. The opportunity costs are derived from the earnings categories by education entry levels given in **Table 2.5**, although with some important modifications, as briefly described below:

- The earnings in **Table 2.5** are averages based on trajectories of earnings for all ages, from 17 to 65 (roughly defining the time spent engaged in the workforce).

- The average earnings, therefore, define the mid-point of a working life trajectory that begins with low entry-level wages and culminates with a typical worker's highest wages around age 60.[9] The earnings data shown in **Table 2.5** are specific to the state of Iowa, weighted, however, to reflect the specific gender and ethnicity makeup of the HCC student body. Details on earnings and education sources are found in **Appendix 2.**

- The opportunity cost of time is then conditioned by the average age of the student (24.8 years, see **Table 2.4**). In particular, the average earnings at the midpoint ($29,089 in **Table 3.5**) are adjusted downward to $14,731 to reflect the average earnings at age 24.8.

The Budget

Beyond the student perspective, our assessment of HCC considers the benefits and costs from the state and local government taxpayer perspective. Accordingly, only the state and local government revenues in **Table 2.1** are included as costs in the investment and

[9] This profile of lifetime earnings is well documented in labor economics literature. For example, see Willis (1986), which is supported by the well-respected theoretical and empirical work of Becker (1964) and Mincer (1958).

benefit-cost assessment. All else being equal, the larger the other revenue sources in **Table 2.1** are (federal grants, student tuition, and contract revenues), relative to state and local government revenues, the larger the relative economic payback to state and local taxpayers will be.

OTHER ASSUMPTIONS

Table 2.9 lists several other assumptions imbedded in the analytic model: a) the discount rate and time horizon, b) crime-related costs (incarceration costs are inclusive of the cost per prison year plus all costs associated with arrest, investigation, trial and finally incarceration), c) welfare and unemployment costs per year,[10] and d) health-related costs.[11] Annual real increases in costs are also included, although these are not used in the study. The alternative education opportunity assumption is discussed later in this chapter in association with the regional economic impacts.

Table 2.9. Miscellaneous Variables

	Variables
Discount rate	4.0%
Time horizon, years to retirement	40.2
Avg. cost/prison year (all incl.: arrest, trial, incarc., rehab. etc.)	$77,178
Avg. length of incarc. (total years over 30-year time horizon)	4.0
Real cost increase per prison year	0.0%
Average victim cost	$ 85,000
Real victim cost increase per year	0.0%
Average cost per welfare year	$ 75,138
Avg. duration on welfare (total years over 30-year time horizon)	4.0
Welfare/unemployment cost increase per year	0.0%
Average cost per unemployment year	$ 36,249
Avg. duration on unempl. (total years over 30-year time horizon)	4.0
Smoking-related medical costs per year	$ 2,962
Alcohol-related medical costs/year	$ 7,946
Real medical cost increase per year	0.0%
Alternative education opportunities	16.0%

Assumptions adapted from:

1. Bureau of Justice Statistics, Table #. 05 Total direct and intergovernmental expenditure, by activity and level of government, fiscal years 1980-97, Criminal Justice Expenditure and Employment Extracts Program, 12/14/00.
2. OICJ The Extent and Costs of Victimization, Crime and Justice: The Americas, Dec-Jan 1995.
3. The Heritage Foundation, *Means-Tested Welfare Spending: Past and Future Growth*, Testimony by Robert Rector, (3/07/01).
4. U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/news.release/annpay.t01.htm.
5. The Economic Costs of Smoking in the United States and the Benefits of Comprehensive Tobacco Legislation, http://www.ustreas.gov/press/releases/docs/tobacco.pdf.
6. National Institute on Drug Abuse and the National Institute on Alcohol Abuse and Alcoholism, found at: http://www.nida.nih.gov/EconomicCosts/Index.html.

[10] As indicated in the table, we assume that the average duration on welfare and unemployment is 4.0 and 4.0 years, respectively. This means that, over the next 30 years or so, the cumulative incidence of welfare and/or unemployment will be spread evenly over the time horizon—it is not a consecutive period.
[11] The incarceration, health, welfare and unemployment probability and cost variables are internal to the analytic model.

REGIONAL ECONOMIC BENEFITS

In general, the regional economy is affected by the presence of HCC in two ways: from its day-to-day operations (including capital spending), and from students who enter the workforce with increased skills. Day-to-day operations of the college provide the *direct* jobs and earnings of the faculty and staff, and additional *indirect* jobs and earnings through the action of regional multiplier effects. At the same time, the presence of college-trained past and present HCC students in the local workforce deepens the economy's stock of human capital, which attracts new industry and makes existing industry more productive.

Estimating these regional economic effects requires a number of interrelated models. Multiplier effects are obtained with an input-output (IO) model constructed for the Hawkeye Community College economic region.[12] Estimating CC operations effects requires an additional model that takes CC expenditures, deducts spending that leaks from the economy, and bridges what is left to the sectors of the IO model.

Estimating the skill-enhancing effect of past students on the regional economy entails five basic steps.

1. Estimate the number of past HCC students still active in the regional workforce.

2. Adjust for alternative education opportunities.

3. Estimate the increased earnings of the students still active in the regional workforce.

4. Adjust the overall earnings estimated in step 2 to account for a collection of substitution effects. This provides an estimate of the direct increase in regional earnings.

[12] The HCC economic impact model is constructed using IMPLAN input-output modeling software, and data purchased from the Minnesota IMPLAN Group. IMPLAN is the most widely used approach for constructing input-output models. The IMPLAN website (www.implan.com) boasts of over 1,300 active database and software users in the United States as well as internationally. IMPLAN users include federal and state government, universities, as well as private sector consultants.

5. Allocate the direct increase in regional earnings to affected economic sectors, and augment these to account for a collection of demand and supply-side multiplier effects.

The end results include estimates of the impact of past student skills and increased productivity on: a) the size of regional industries, and b) the size of the overall regional economy.

This section is divided into a number of subsections. The first documents our estimation of day-to-day HCC operations effects followed by sections that detail the steps necessary to estimate the effect of past student skills on the regional economy.

The Impact of HCC Operations

The first step in estimating the impact of HCC operations is to assemble data on its combined operating and capital expenditures. These data are assembled from college budgets and collected into the categories of **Table 2.10**. Column 1 simply shows the total dollar amount of spending. Columns 2 through 5 apportion that spending to in-region, in-state, and out-of-state vendors. The net local portion is derived in Column 6. Net local spending shown in Column 6 is fed into the regional IO model.[13]

The information on total spending required for Column 1 is generally readily available, though sorting specific items to the categories of the table can take some time. Information in Columns 2 through 5 is generally more problematic: hard data are scarce on the local/non-local split. In these cases, HCC staff members were asked to use their best judgment.

The first row in **Table 2.10** shows salaries and wages. These *direct* earnings are part of the economic region's overall earnings by place-of-work: These appear later as "Direct Earnings of Faculty and Staff" in the table of findings, **Table 3.16**. Dollar values in **Table 2.10** Column 6, "Net Local Spending," are fed into the economic region IO model. The IO model provides an estimate of indirect effects, and these appear as "Indirect Earnings" in findings **Table 3.16**.

[13] **Table 2.10**, by itself, might provide useful information to local audiences—Chambers of Commerce, local business establishments, Rotary clubs, and the like. The table indicates that the college is a "good neighbor" in the local community, evidenced by the fact that an estimated 69% of all college expenditures benefit local vendors ($23,794 / $34,681 = 69%).

Table 2.10. Profile of HCC Spending in and out of Regional Economy ($ Thousands)

Spending Categories	Tot. Dollar Amount (1)	Local % (2)	Non-Local, but in-state % (3)	% Local Manufact. (4)	Manufact. % Non-Loc. in-state % (5)	Net Local Spending (6)
Salaries and wages	$17,421	79%	13%			$13,848
Travel	$356	43%	35%			$151
Electricity and natural gas	$558	100%	0%			$558
Telephone	$228	7%	93%			$16
Building materials & gardening supplies	$28	80%	10%	0%	22%	$22
General merchandise stores	$4,013	30%	32%	0%	20%	$1,211
Eating & drinking	$238	100%	0%			$238
Maintenance & repair construction	$86	86%	5%			$74
New construction	$0	0%	0%			$0
Insurance	$2,702	92%	8%			$2,478
Legal services	$63	75%	25%			$47
Credit agencies	$869	0%	0%			$0
U.S. postal service	$152	50%	25%			$76
Accounting, auditing & bookkeeping	$34	0%	100%			$0
Marketing	$230	80%	20%			$184
Other business services	$7,217	63%	26%			$4,568
Water supply & sewerage systems	$0	0%	0%			$0
Printing & publishing	$185	80%	10%			$148
Rental property	$185	83%	17%			$154
Services to buildings	$0	0%	0%			$0
Unemployment compensation	$97	0%	100%			$0
Honoraria + other payments to households	$19	100%	0%			$19
Total	$34,681					$23,794

Note: this table provides details for the summary of the college role in the regional economy (Table 3.16)

Estimating CHEs Embodied in the Present-Day Workforce

This section describes the submodel for estimating the CHEs of past HCC instruction embodied in the present-day regional workforce. **Table 2.11** indicates variables critical to the model, while **Table 2.12** shows the various steps in the calculation. The various values appearing in **Table 2.11** originally appear (with citation) in **Table 2.2** and **Table 2.4**. Considering **Table 2.12** one column at a time reveals the steps involved in estimating embodied CHEs.

Column 1 provides an estimate of the enrollment history (unduplicated headcount) of HCC students. Column 2 represents the non-retired students, in other words, the students who have the potential to go into the workforce. Column 3 is the same as Column 2, but net of students who leave the region immediately upon leaving HCC. As shown in the table, 85% of the students remain in the area upon leaving the CC, and 15% leave the region.

Column 4 goes one step further—a comparison of Columns 3 and 4 indicates that all past students have left HCC except for the last three years (1999-2002) where students are still enrolled (the leaver assumptions are shown in Column 9).

Column 5 further reduces leavers to focus only on those who have settled into a somewhat permanent occupation. As shown in Column 10 (the "settling factor"), it is assumed that all students settle into permanent occupations by their fourth year out of school. Settling-in assumptions are specified in **Table 2.2** above.

Column 6 transitions further from leavers who have settled into jobs to leavers still active in the current workforce. Here we net off workers who, subsequent to leaving HCC and settling into the local workforce, have out-migrated, retired, or died. As shown in **Table 2.11**, 25% of the past students will out-migrate, retire or die over the course of the next 30 years. This "30-year attrition" follows an assumed logarithmic decay function shown in Column 11 labeled "active in local workforce."

Column 7 shows the average CHEs generated per year back to 1973. These data were obtained by dividing total year-by-year CHEs by the corresponding headcount.[14] Column 8 shows the product of the year-by-year average CHEs, and the estimate of the number of past students active in the current workforce in Column 6. Looking to the total in Column 8, we estimate that the current workforce of the Hawkeye Community College economic region embodies some 1.4 million CHEs of past HCC instruction.

Table 2.11. Critical Variables

Assumptions	Values
Current headcount of students	26,074
Students remaining in the community after leaving HCC	85%
30-year attrition	25%
Decay rate	1.0%
Overall average of credits earned per student this year	5.6

Reducing HCC CHEs to Account for Alternative Education Opportunities

The 1.4 million CHEs of past-HCC instruction indicated in **Table 2.12** increase the skills embodied in the local workforce and, through them, the overall size of the regional economy in terms of earnings. Before turning to the income calculation, however, it is fair to ask to what degree past HCC students would have been able to obtain schooling (and therefore skills) absent the community college system in Iowa. This is the common "with and without condition" in applied economic analysis.

[14] We used the current year estimate of CHEs (see **Table 2.4**), adjusted for the retired students, as a proxy for the average achievement per student in all prior years before FY 2002.

direct and indirect effect on *regional income*. The direct effect is conveyed in the higher earnings of the newly skilled workers themselves, while the indirect stems from associated multiplier effects. This section describes our process for estimating the direct effect.

A key part of the overall model is the "engine" that estimates the value per CHE of instruction.[16] The product of per-CHE added earnings, and the total of embodied past HCC instruction (1.4 million CHEs, **Table 2.12**) provides the dollar estimate of how much more past students are earning as a result of their HCC coursework. The question is: how much of this added *personal* income can be counted as added *regional* income?

Elasticity of Substitution: Two Polar Cases

Polar Case 1. Two Inelastic Assumptions.

Assumption #1: *The rate of technical substitution between local skilled and unskilled workers is infinitely inelastic.* Skilled workers are able to perform tasks that unskilled workers cannot. Here, the added skills only increase value; they do not replace or substitute for existing production inputs. The added skills enable product line expansion, increased competitiveness of existing industry, and they attract new industry. Earnings and output expand as a result.

Assumption #2: *The rate of technical substitution between local and non-local workers is infinitely inelastic.* Skilled workers cannot be attracted from outside the region. Here, the existence of local skilled workers enables industry to do things they could not do otherwise. Locally skilled workers may attract new industry to the region (there is a near stand-alone development theory based on the notion that skilled workers attract new industry—Borts and Stein, 1964).

Polar Case 2. Two Elastic Assumptions.

Assumption #1: *The rate of technical substitution between local skilled and unskilled workers is infinitely elastic.* This implies that skilled workers are substituted for unskilled workers in a manner that creates no net additional regional earnings. Businesses simply replace lower productivity (and lower paid) unskilled workers with some smaller number of higher productivity (and higher paid) skilled workers, with no net change in overall output or earnings.

Assumption #2: *The rate of technical substitution between local and non-local workers is infinitely elastic.* Here existing or new industry can draw skilled workers from outside the region without extraordinary inducements or wage premiums that would otherwise increase costs and reduce competitiveness. Regional growth is driven by something other than local workforce skills. Hamilton et al., 1991, provides a broad discussion of the issues that work to limit the response of regional income to specified economic changes.

The answer to this question depends on the magnitude of the elasticity assumptions at work in the regional income model. As shown in the text box, the elasticities can vary

[16] Briefly, the engine that estimates the value per CHE does so by combining earnings/education data from **Table 2.5** with information on aggregate student achievements during the analysis year (from **Table 2.4**). These calculations are discussed more fully in **Chapter 3**.

Table 2.12. Estimating Credit Hours of Instruction Embodied in the Workforce

Year	Student Enrollment Headcount 1	Subtract Retired Students 2	Subtract Students Migrating Immediately 3	Students who have left college (Leavers) 4	Leavers Who Have Settled Into Jobs 5	# Settled Into Jobs - Active in the Workforce 6	Average Credit Equivalents 7	Credits Embodied in the Workforce 8	Assumptions: % of Students in Workforce 9	Assumptions: "Settling" Factor 10	Assumptions: Active in Workforce 11
1973	5,812	5,406	4,595	4,595	4,595	3,446	5.60	19,307	100%	100%	75.0%
1974	6,343	5,899	5,014	5,014	5,014	3,797	5.60	21,272	100%	100%	75.7%
1975	7,428	6,908	5,872	5,872	5,872	4,489	5.60	25,151	100%	100%	76.5%
1976	7,141	6,641	5,645	5,645	5,645	4,357	5.60	24,411	100%	100%	77.2%
1977	7,448	6,927	5,888	5,888	5,888	4,588	5.60	25,707	100%	100%	77.9%
1978	7,751	7,209	6,127	6,127	6,127	4,821	5.60	27,011	100%	100%	78.7%
1979	7,436	6,916	5,878	5,878	5,878	4,670	5.60	26,163	100%	100%	79.4%
1980	9,283	8,633	7,338	7,338	7,338	5,886	5.60	32,976	100%	100%	80.2%
1981	8,429	7,839	6,663	6,663	6,663	5,396	5.60	30,232	100%	100%	81.0%
1982	8,988	8,359	7,105	7,105	7,105	5,809	5.60	32,545	100%	100%	81.8%
1983	9,084	8,448	7,181	7,181	7,181	5,927	5.60	33,209	100%	100%	82.5%
1984	8,545	7,947	6,755	6,755	6,755	5,630	5.60	31,541	100%	100%	83.3%
1985	9,088	8,451	7,184	7,184	7,184	6,045	5.60	33,867	100%	100%	84.1%
1986	9,427	8,767	7,452	7,452	7,452	6,331	5.60	35,469	100%	100%	85.0%
1987	8,529	7,932	6,742	6,742	6,742	5,783	5.60	32,401	100%	100%	85.8%
1988	6,945	6,459	5,490	5,490	5,490	4,755	5.60	26,639	100%	100%	86.6%
1989	8,697	8,088	6,875	6,875	6,875	6,011	5.60	33,677	100%	100%	87.4%
1990	7,927	7,372	6,266	6,266	6,266	5,532	5.60	30,992	100%	100%	88.3%
1991	8,090	7,524	6,395	6,395	6,395	5,700	5.60	31,936	100%	100%	89.1%
1992	10,915	10,151	8,628	8,628	8,628	7,764	5.60	43,500	100%	100%	90.0%
1993	14,429	13,419	11,406	11,406	11,406	10,363	5.60	58,061	100%	100%	90.9%
1994	18,167	16,896	14,361	14,361	14,361	13,174	5.60	73,807	100%	100%	91.7%
1995	20,349	18,925	16,086	16,086	16,086	14,898	5.60	83,469	100%	100%	92.6%
1996	20,776	19,322	16,424	16,424	16,424	15,357	5.60	86,041	100%	100%	93.5%
1997	21,861	20,331	17,281	17,281	17,281	16,315	5.60	91,407	100%	100%	94.4%
1998	22,946	21,340	18,139	18,139	18,139	17,290	5.60	96,868	100%	100%	95.3%
1999	23,868	22,197	18,868	18,868	18,868	18,158	5.60	101,729	100%	100%	96.2%
2000	24,283	22,583	19,196	19,186	17,267	16,778	5.60	93,998	100%	90%	97.2%
2001	25,085	23,329	19,829	19,383	14,537	14,261	5.60	79,900	98%	75%	98.1%
2002	26,074	24,249	20,611	17,520	8,760	8,760	5.60	49,078	85%	50%	100.0%
Embodied Total								1,412,364			

The HCC IR staff provided the estimate of the alternative education opportunity variable (16.0%) by taking into account opportunities such as private trade schools and colleges, public four-year institutions, correspondence schools, and so on.[15] Accordingly, when calculating the net increase in regional income attributable to HCC, the historic CHE's indicated in **Table 2.12** should be reduced by 16.0%.

From Embodied CHEs to Direct Regional Income Effects

In the standard model, regional income is expressed as a function of physical and human capital. Human capital is increased by adding new workers or by enhancing the skills of existing workers – the former adds the productivity of the new workers; the latter increases the productivity of existing workers. Increased human capital has a

[15] We are not comparing HCC to other community colleges in the Iowa community college system. As indicated in the preface to this report, our analysis is not intended as a vehicle for comparing one community college with others: Our analysis examines HCC as a member of the community college system in, and not as a competitor with, other community colleges in the state.

from perfectly inelastic to perfectly elastic. The text box describes the issue according to "two polar cases," one accepting all of the added student income, the other accepting none of it. Obviously the actual value will lie somewhere between. How much of increased past student income should be counted as increased regional income?

There is considerable empirical literature on the economic development effects of education, though mainly in the international rather than regional context. In a recent study, Bils and Klenow (2000) survey previous work on the subject and advance a model of their own. Based on their findings, we reduce the full past student income increase (the perfectly inelastic case) by 2/3 to arrive at our estimate of the net increase in regional income. This estimate for HCC appears in **Table 3.16** under the heading "Earnings Attributable to Past Student Economic Development Effects," "Direct Earnings."

The Industries Where Past Students Work

Calculating the indirect impacts of workforce-embodied HCC skills also requires the use of the regional IO model discussed above. The model captures the extent to which a dollar spent turns over in the economy. We estimate indirect income effects by applying the IO multiplier to the direct effects. The use of IO multipliers in this way requires that the direct effects be disaggregated into specific industrial sectors. Disaggregating direct impacts avoids IO aggregation error,[17] and it facilitates an analysis of HCC's contribution to the business sector – an analysis that appears in **Chapter 3**.

Table 2.13 provides information on the sectoral distribution of jobs in the regional economy. The table provides a draft-stage vehicle for collecting information from HCC on the sectoral breakdown of their past students, and it documents the information provided by the college. **Table 2.13** appears with four columns briefly described below.

[17] Aggregation error occurs when a model with many industrial sectors is reduced through industry combination to a model with many fewer "aggregated industries" (see Miller and Blair, 1985, Chapter 5). Our initial estimate of past student direct earnings effects appears with no industry detail, and would thus require aggregating all industries to a single aggregate. By any measure, use of such an aggregated multiplier would court an unacceptable aggregation error. At the same time, the IMPLAN IO modeling system conveys industry detail at roughly the SIC 4-digit level. An assembly of data on direct past student effects at this fine level of detail is not realistic. Our solution is to disaggregate past student direct effects to the nineteen sectors appearing in **Table 2.13**.

Column 1 appears for reference and simply shows the current distribution of all jobs in the Hawkeye Community College District economy by sector. For example, 7.8% of all regional jobs are in the Agriculture & Agricultural Services sector, 6.3% of all jobs are in the Finance, Insurance and Real Estate sector, and so on. Column 2 shows the distribution by sector of past HCC students, i.e., an estimate of the industries where they currently work. For example, while 7.8% of all regional jobs are in the Agriculture & Agricultural Services sector, only 0.8% of past HCC students are estimated to be in that sector. In contrast, while 6.3% of all jobs are in the Finance, Insurance and Real Estate sector, 12.8% of past HCC students are estimated to be in that sector.

There is a long-standing theory of regional development known as *stage theory*. The notion is that regional economies develop by progressing from "low stage industries" (agriculture, mining, logging, etc.), to "higher stage industries" (process manufacturing, fabricative manufacturing), and finally to specialized finance, engineering, and so on. The distribution of past HCC students shown in Column 2 is derived mechanically, on the assumption that past HCC students tend to find jobs in the higher development stage industries.[18]

In the course of assembling the data for our analysis, HCC has examined the distribution of past students as indicated in Column 2, and made any adjustments needed to accurately reflect the current realities. The revised distribution appears in Column 3.

Column 4 applies the distribution of student percentages in Column 3 to the total historic CHEs embodied in the workforce. This latter total is obtained from **Table 2.12**, and reappears at the bottom of Column 4 as the total. In **Chapter 3**, we estimate the contribution to student earnings per CHE of HCC instruction. This product provides our estimate of the direct effect of past HCC operations on regional earnings by industry.

[18] Parr (1999) describes four stages of economic development: primary production, process manufacturing, fabricative manufacturing, and producer services and capital export. We apply a "development score" to Parr's stages: low scores for lower stage sectors and higher scores for higher development sectors. The scores are applied to employment in each sector, then normalized to form weights for distributing past HCC students. The end result is that past students favor higher stage industries. For additional detail on the use of this approach for classifying industries by industrial stage see Robison and others, 2002.

The Indirect Economic Development Effects of Students

The previous section described how we estimated the increment of regional earnings directly attributable to the HCC skills embodied in the current region workforce. Next, we turn to the indirect effects on both the demand and supply sides.

First, consider demand-side effects. Regional earnings are larger because of the HCC skills embodied in past students still active in the workforce. As earnings increase, so do industry outputs and industry purchases of inputs.[19] These in turn generate subsequent rounds of increased earnings, which are measured with the familiar multiplier effects. These indirect effects on the demand-side are estimated in the regional IO model by converting the embodied CHEs shown in **Table 2.13** into direct increased industry sales.

Second, consider the supply-side indirect effect. Economic development theory describes a process of "cumulative causation," or "agglomeration," whereby growth becomes in some degree self-perpetuating. The location of a new industry (A) in the region attracts other industries (B, C, and D) that use industry A's outputs as inputs. This, in turn, produces subsequent rounds of industry growth, and so on.[20] To estimate agglomeration effects, we configure our economic region IO model to provide a set of so-called supply-driven multipliers (see for example Miller and Blair, 1985). We estimate the supply-side effects by converting the embodied CHEs shown in **Table 2.13** into direct increased industry value added, and then apply these to the multipliers of the supply-driven regional IO model.[21]

[19] For example, associated with the increased output and earnings is an increased demand for both consumer goods and services, and goods and services purchased by businesses as inputs. These in turn produce a set of regional economic multiplier effects. These are all captured and included as part of the demand-side indirect effects.

[20] For a more complete discussion of agglomeration and cumulative causation see Fujita, Krugman, and Venables, 1999.

[21] Agglomeration effects are difficult to estimate. Our procedure assumes that so-called "supply-driven IO multiplier effects" capture the agglomeration effects. To increase the plausibility of this assumption, we apply only the direct effects associated with the industries in the highest stages of development.

Table 2.13. Estimating the Distribution of Past Students by Industrial Sectors of the Regional Economy

Industries	Distribution of All Jobs 1	Provisional Distribution of Past Students 2	Final Distribution of Past Students 3	Distribution of Historic CHEs Embodied in Current Workforce 4
Agriculture & Agricultural Services	7.8%	0.8%	0.8%	11,220
Mining, Sand, and Gravel	0.1%	0.0%	0.0%	108
Construction	5.4%	0.5%	0.5%	7,736
Manufacturing: Food/Wood & Paper/Textiles	5.2%	2.7%	2.7%	37,482
Manufacturing: Chemicals/Petroleum/Stone & Glass	7.6%	7.7%	7.7%	109,278
Manufacturing: Computer & Electronic Equipment	0.0%	0.1%	0.1%	815
Manufacturing: Other	1.3%	1.4%	1.4%	19,195
Transportation	1.9%	1.0%	1.0%	13,820
Public Utilities	0.2%	0.1%	0.1%	1,393
Publishing & Communications	1.1%	2.3%	2.3%	32,257
Trade	20.9%	21.4%	21.4%	301,601
Finance, Insurance, and Real Estate	6.3%	12.8%	12.8%	181,066
Motels & Eating/Drinking & Amusement/Recreation	6.7%	3.4%	3.4%	48,126
Consumer Services	4.0%	2.0%	2.0%	28,678
Business Services	6.1%	6.2%	6.2%	87,895
Medical/Educational/Social services	11.8%	24.1%	24.1%	340,209
Federal Government	1.4%	1.4%	1.4%	20,299
State & Local Government	12.2%	12.1%	12.1%	171,186
Total	100.0%	100.0%	100.0%	1,412,364

Chapter 3
PRIVATE, PUBLIC AND REGIONAL ECONOMIC BENEFITS

INTRODUCTION

This chapter summarizes the main HCC case study results in four sections: 1) the aggregate annual private and public benefits; 2) these same benefits measured per CHE and per student; 3) future benefits expressed in terms of NPV, RR, and B/C ratio, and 4) the regional economic benefits.

ANNUAL BENEFITS

Higher Student Earnings

The annual benefits are summarized in **Tables 3.1** and **3.2** (see also **Figure 3.1**). We begin with earnings growth in **Table 3.1**. Last year, each student completed, on average, 5.6 CHEs at HCC (see **Table 2.4**), only a fraction of one full year of study. This is because the majority of students attend for a variety of purposes as discussed in conjunction with **Table 2.4**; for some, to make progress towards an eventual degree, and for others, simply to acquire certain skills that will increase their productivity in the workforce. A total of 26,074 students will capture $16.7 million worth of higher annual earnings based on this average increase in educational attainment.

Social Savings

Health-Related Savings

Also in **Table 3.1**, we see that improved health, lower welfare and unemployment, and lower crime will result in annual dollar savings to the taxpayers of $1.5, $0.7, and $0.8 million (rounded). In **Table 3.2**, these same results are presented in greater detail—health-related absenteeism will decline by 6,184 days per year, translating to a total of 24 years' worth of productivity gained per year (based on 260 workdays per year). Annual total dollar savings from reduced absenteeism days equals $0.7 million. There will be 165 fewer smokers and 34 fewer alcohol abusers, amounting to annual total dollar

savings of $0.49 and $0.3 million, respectively, inclusive of insurance premiums, personal payments, and withholding for Medicare and Medicaid.

Crime-Related Savings

There will be 25 fewer people incarcerated as a result of the higher education obtained, saving the taxpayers a total of about $316,815 per year. The assumptions pertaining to these results are listed in **Table 2.9** in the previous chapter. They are based on an average duration of 4.0 years incarcerated at an average cost of $77,178 per year (inclusive of arrest, prosecution, incarceration, and rehabilitation).[22] Fewer people incarcerated means more people gainfully employed—this translates to $153,044 in additional annual earnings for the local community. Victim costs will be reduced by $348,924 per year.

Welfare and Unemployment Savings

There will be 132 and 29 fewer people on welfare and unemployment, respectively, in the community. The corresponding total dollar savings for the local community amounts to $692,676 ($474,687 welfare + $217,989 unemployment savings) for one year, assuming that the average time spent on welfare and unemployment is 4.0 years (see **Table 2.9**).

Total Public Benefits

All told, there will be $3.0 million in public savings per year in the community—the sum of all health, crime, and welfare/unemployment benefits in **Table 3.2.**

Table 3.1 Student Body Achievements, Higher Earnings

		Social (External Benefits)			
Level of Education	Higher Earnings	Improved Health	Lower Welfare Unemployment	Lower Crime	Total
< HS/GED	$352,898	$25,011	$31,149	$17,201	$426,259
HS/GED equivalent	$471,682	$19,253	$24,497	$11,025	$526,458
1 year post HS or less	$8,282,702	$893,416	$455,882	$573,202	$10,205,202
2 years post HS or less	$6,954,890	$467,710	$166,389	$203,139	$7,792,128
> Associate Degree	$676,646	$44,612	$14,760	$14,215	$750,232
Total	$16,738,818	$1,450,003	$692,676	$818,782	$19,700,280

[22] The calculation is as follows: 25 not incarcerated x $77,178 x 4.0 years / 40 years to retirement from **Table 2.9** = $12,186.

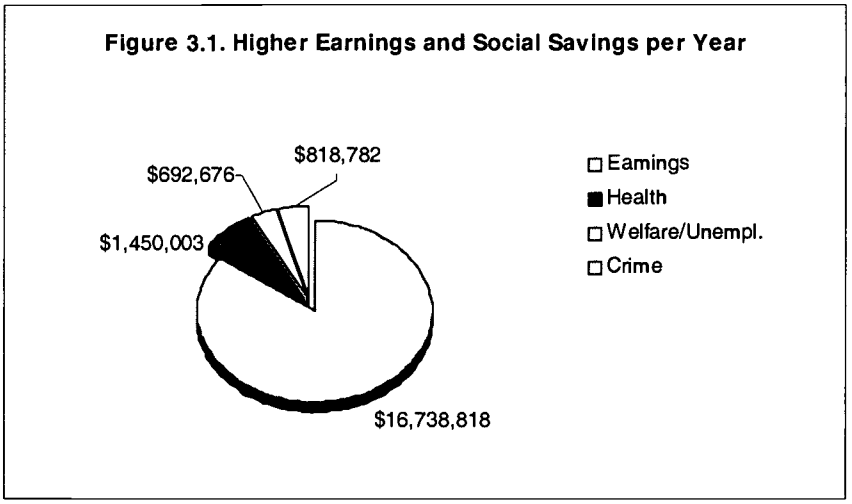


Table 3.2. Summary of Annual Benefits

	Units	Earnings	Social Savings
Higher earnings	NA	$16,738,818	
Health benefits			
Absenteeism savings (days)	6,184	NA	$693,091
Fewer smokers, medical savings (# persons)	165	NA	$488,112
Fewer alcohol abusers (# persons)	34	NA	$268,800
Crime benefits			
Incarceration savings (# persons)	25	NA	$316,815
Crime victim savings	NA	NA	$348,924
Added productivity (fewer incarcerated)	NA	NA	$153,044
Welfare/unemployment benefits			
Welfare savings (# persons)	132	NA	$474,687
Unemployment savings (# persons)	29	NA	$217,989
Total		$16,738,818	$2,961,462

ANNUAL BENEFITS PER CHE AND PER STUDENT

The aggregate benefits reported in **Tables 3.1** and **3.2** above are expressed per CHE and per student in **Table 3.3.** These are also displayed in the form of a pie chart in **Figure 3.2.** On average, students capture: a) $120 per year in higher earnings per CHE,[23] and b) $627 per year in higher earnings per student on the basis of the number of CHEs completed. **Converted to a full-year-equivalent (30 CHEs), the annual earnings would amount to $3,359 per student.** On average, the social benefits per CHE range from a low of $3 for Added Productivity (fewer incarcerated) to a high of $8 per CHE for Crime

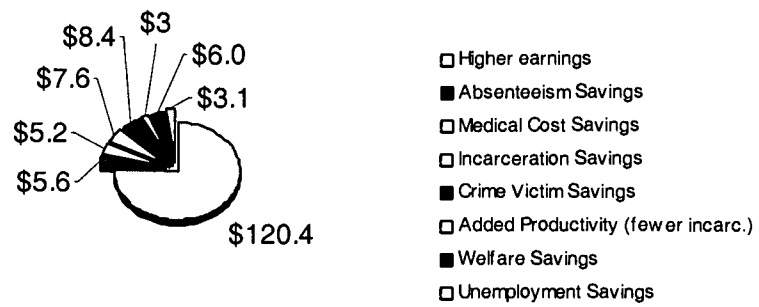
[23] Thus, a student attending for 10 CHEs will add $1,204 per year to the lifetime earnings. A longer curriculum will add substantially more. The earnings expectations are portrayed as linear but with many computational steps involved (see **Chapter 2**). The extrapolation is based on the averages of low earnings additions for leavers completing few CHEs, plus higher additions for leavers completing more CHEs.

Victim Savings. On a per student basis, they range from a low of $15 per student for Added Productivity (fewer incarcerated) to a high of $44 for Crime Victim Savings. On a full-year equivalent basis (30 CHEs), the social savings would amount to $1,081 per student (the total of $4,440 less $3,359 of higher private earnings as indicated in **Table 3.3**).[24]

Table 3.3. Annual $ per Credit and Student

	Per Credit	Per Student	Annualized
Higher earnings	$120	$627	$3,359
Absenteeism Savings	$6	$29	$156
Medical Cost Savings	$5	$27	$146
Incarceration Savings	$8	$40	$212
Crime Victim Savings	$8	$44	$234
Added Productivity (fewer incarc.)	$3	$15	$78
Welfare Savings	$6	$31	$167
Unemployment Savings	$3	$16	$87
Total	$159	$829	$4,440

Figure 3.2. Annual Benefits per Credit



THE INVESTMENT ANALYSIS: INCORPORATING FUTURE BENEFITS

The results in **Tables 3.1** and **3.2** provide only a single-year snapshot of the benefits. As long as the students remain in the workforce, however, the CC-acquired skills continue to add productivity over time. In the investment analysis, the higher earnings and

[24] The values in **Table 3.3** and **Figure 3.2** are calculated based on the various statistical sources referenced in **Table 2.9**, in conjunction with the student profile and headcount numbers provided by the college.

avoided costs are projected into the future over the working life of the student, discounted to the present, and then compared to the present costs of education. The investment is feasible if all discounted future benefits are greater than or equal to the costs.[25]

The investment analysis results are shown in **Table 3.10** (in the aggregate, per CHE and per student). The end results sought are the Net Present Value **(NPV)**, the Rate of Return **(RR)**, the Benefit/Cost **(B/C)** ratio and the Payback Period.[26] These are simply different ways of expressing the results. All of the present value results shown are intermediary steps that ultimately generate the NPVs, RRs and B/C ratios.

We begin with some definitions in **Table 3.4.** Private benefits are the higher earnings captured by the students themselves. Broad taxpayer benefits are the additions to regional earnings plus lower overall expenditures related to health, crime, welfare, and unemployment. Narrow taxpayer benefits include increased state and local tax revenues (from increased regional income), and savings from reduced state and local government expenditures for incarceration, health and welfare.

Table 3.4. Some Definitions

Terms	Definitions
Student Benefits	Higher earnings captured by the students
Taxpayer Benefits: Broad	Additions to earnings plus lower overall expenditures related to health, crime, welfare and unemployment
Taxpayer Benefits: Narrow	Increased state & local government tax collections plus lower state & local govt. expenditures related to health, crime, welfare and unemployment
Student Costs	Tuition (**Table 2.1**) + opportunity cost of time
Taxpayer Costs	Taxes (state and local, see **Table 2.1**)
Results:	
Student Perspective	Student Benefits / Student Costs
Taxpayer Perspective: Broad	Taxpayer Benefits (Broad) / Taxpayer Costs
Taxpayer Perspective: Narrow	Taxpayer Benefits (Narrow) / Taxpayer Costs

[25] Future benefits are worth less than present benefits. The present value of $5,000 to be received 30 years from today is worth only $1,603 given a 4% discount rate ($5,000/(1.04)^{30} = $1,603). If the same benefits occur each year for 30 years, each year's benefit must be discounted to the present, summed and collapsed into one value that represents the *cumulative* present value of all future benefits. Thus, the present value of 30-years' worth of $5,000 per year is $90,000.

[26] The criteria for feasibility: a) NPV must be positive or equal to zero; b) RR must be equal to or greater than the returns from other similar risk investments; c) the B/C ratio must be equal to or greater than 1; and d) the payback period is the number of years of benefits required to fully recover the investment made.

On the cost side, student costs consist of the tuition paid by the students (31.4% of the total budget in **Table 2.1**) and, most importantly, the opportunity cost of time (the earnings foregone). Also included here are the other sources of institutional revenues from private sources (10.9% in the case of HCC). The taxpayer costs consist of the state and local tax items in **Table 2.1**, or a total of 11.8% plus 32.1% = 43.9%.

Table 3.5. Opportunity Costs (Earnings Foregone), $ per Year

			Opp. Cost
Avg. statistical annual income of given gender and ethnicity profile		$29,089	
Annual income, given gender and ethnicity profile, at current age of students		$14,731	
CHEs per student (net of retired)	5.6		
Avg. term in residence and avg. income while in residence	19%	$2,751	
Total number of students		26,074	
Less retired %	7.0%	1,825	
Remaining students subject to opportunity cost computation		24,249	
Students not working while attending college and opportunity cost	6%	1,397	$3,844,395
No. of working students		22,851	
% working part time, earnings relative to stat. averages, and opp. cost	66%	$936	$21,389,870
Total opportunity cost			$25,234,265
Pell and other student aid		$4,310,285	
Restricted portion of student aid (tuition and fees)	10%	$431,029	($3,879,257)
GRAND TOTAL STUDENT OPPORTUNITY COST			$21,355,009

The opportunity cost (earnings foregone) incurred by the student body in the aggregate is estimated in **Table 3.5**. The first number in the table is the overall average annual income of the student body (given gender and ethnicity characteristics). This number, however, reflects the midpoint of the lifetime trajectory of earnings, while what is needed are the earnings of the students while enrolled (which is expected to be less than earnings at the midpoint). This is the second number in the table, $14,731 per year, assuming full-time employment. The adjustment from the first to the second number takes into account the average age of the student body and the relationship between earnings and age as specified by the well-known and tested "Mincer equation" (see, for example, Willis 1986, p 530).

We then deduct the retired student body (7.0%) to arrive at the net number of students subject to opportunity cost calculations— 24,249 students. The 1,397 students not working are charged the full opportunity cost of time (based on the average term in residence), or $3,844,395. The 22,851 working students are charged only a fraction of the full opportunity cost (66%), or $21,389,870 as indicated in the table. Finally, we adjust the opportunity cost downward by the Pell and other student aid grants and the estimated 10% adjustment for the restricted use of these grants for tuition and fees.

We also present the results in different ways. First, the student perspective results indicate whether the HCC education pays by comparing the private benefits (higher earnings) to the private costs. Second (as discussed in the previous chapter), we compare *all* private and public benefits to the public costs (the state and local taxpayer contributions in **Table 2.1**) in a broad taxpayer perspective in present value terms. Third and finally, in a narrow taxpayer perspective, we compare only a portion of the public benefits (taxpayer actual savings) to the public costs; i.e., do state and local taxpayer investments of $14,588,483 (**Table 2.1**) pay off in terms of the public savings generated?

The Student Perspective

The collective investment of the students (time and money) is assessed in **Table 3.6.** Column 1 tracks the increased earnings of the student body as they leave the CC, and follows them over the course of their working lives (65 - 24.8 = 40 years, see **Table 2.4**). The upward trend in earnings mimics the Mincer equation (see Willis, 1986). It reflects both the growth in students' earnings over time and the spread in the increased earnings attributable to education.[27] Column 2 is simply Column 1 reduced by the 10% discount value that accounts for causation factors affecting student earnings. Column 3 shows the cost of the single year's education. Finally, Column 4 looks at the educational investment from a cash flow perspective, subtracting annual costs from the annual benefits.

Does attending HCC make economic sense for the students? The answer is a resounding **yes**. The future stream of benefits (higher earnings) accruing to the students has an NPV of $277,295 thousand **(Table 3.6)**—a positive NPV (greater than zero) indicates that the investments made are strongly feasible. The B/C ratio of 9.2 is strongly positive since the ratio is well above 1. The RR of 23.9% is also well above the long-term rates of return obtainable in the stock or bond markets, and certainly above the 4.0% discount rate used in the analysis. In the long run, therefore, the average HCC student will be substantially better off attending the college. The payback period for a student (tuition plus the earnings foregone) is 6.4 years—the higher earnings received beyond that period are pure economic rent—or a persistent earnings flow over and beyond the initial investments.

[27] We computed a Mincer equation based on the estimated coefficients presented in Willis, 1986, p. 545. These were adjusted to 2001 dollars in the usual fashion by applying the "GDP Implicit Price Deflator."

Table 3.6. Student Earnings ($ Thousands)

Year	1 Higher Earnings Gross	2 Higher Earnings Net	3 Cost	4 Net Cash Flow
1	$3,479	$3,131	$35,048	($31,917)
2	$4,116	$3,705	$0	$3,705
3	$5,824	$5,242	$0	$5,242
4	$6,539	$5,885	$0	$5,885
5	$7,304	$6,574	$0	$6,574
6	$8,119	$7,307	$0	$7,307
7	$8,983	$8,085	$0	$8,085
8	$9,896	$8,906	$0	$8,906
9	$10,854	$9,769	$0	$9,769
10	$11,857	$10,671	$0	$10,671
11	$12,900	$11,610	$0	$11,610
12	$13,982	$12,584	$0	$12,584
13	$15,097	$13,587	$0	$13,587
14	$16,242	$14,617	$0	$14,617
15	$17,411	$15,670	$0	$15,670
16	$18,599	$16,739	$0	$16,739
17	$19,800	$17,820	$0	$17,820
18	$21,007	$18,907	$0	$18,907
19	$22,215	$19,994	$0	$19,994
20	$23,416	$21,075	$0	$21,075
21	$24,603	$22,143	$0	$22,143
22	$25,768	$23,191	$0	$23,191
23	$26,904	$24,214	$0	$24,214
24	$28,004	$25,203	$0	$25,203
25	$29,060	$26,154	$0	$26,154
26	$30,064	$27,058	$0	$27,058
27	$31,011	$27,910	$0	$27,910
28	$31,892	$28,703	$0	$28,703
29	$32,703	$29,433	$0	$29,433
30	$33,437	$30,093	$0	$30,093
31	$34,088	$30,679	$0	$30,679
32	$34,653	$31,188	$0	$31,188
33	$35,127	$31,614	$0	$31,614
34	$35,506	$31,955	$0	$31,955
35	$35,789	$32,210	$0	$32,210
36	$35,973	$32,376	$0	$32,376
37	$36,058	$32,452	$0	$32,452
38	$36,043	$32,439	$0	$32,439
39	$35,929	$32,336	$0	$32,336
NPV		$310,994	$33,700	$277,295
IRR				23.9%
B/C ratio				9.2
Payback (years)				6.4

The Broad Taxpayer Perspective

Table 3.7 assesses one year's operation of HCC from the broad taxpayer perspective. The Legislature, on behalf of the taxpayers, must weigh requests for HCC funding against the myriad of other public needs. As such, they need information to better allocate increasingly scarce resources between alternative and competing ends. Column 1 shows the stream of total benefits, including increased regional earnings, and social savings from reduced spending on incarceration, health, welfare and unemployment. Specifics on the estimation of values in Column 1 are presented in **Volume 2: Detailed**

Results, Table 19. Column 2 adjusts for the 16% alternative education opportunity assumption (the percentage of the student body able to avail themselves of similar education elsewhere, absent the Iowa community colleges).

Column 3 conveys an adjustment needed to account for the fact that the CC might be able to operate at some level of enrollment absent state and local government support. Our overall modeling approach includes a sub-model with the students' demand curve for HCC enrollment. The sub-model simulates a reduction to zero of state and local support by progressively increasing tuition. As tuition increases, enrollment declines as indicated by the demand curve (see **Appendix 3** for technical details). Below some minimum level of enrollment, the CC would have to shut down; our analysis assumes this level to be 25% of the present enrollment. Suppose with zero state and local funding the school is still able to operate. In this case, the benefits generated by the CC at that level are shown in column 3. In the case of HCC, the zero state and local government funding level is 41% of the current level, above the 25% shutdown level, so the adjustment in Column 3 applies.

Column 4 is simply Column 1 less Columns 2 and 3. Column 5 shows the state and local taxpayer cost for a single year, as reflected in state and local tax items in **Table 2.1**. Finally, Column 6 considers the broad perspective on the taxpayer's investment in a cash flow sense, subtracting annual costs from annual benefits.

The NPV given this broad perspective is $146 million and the B/C ratio is 11.4. **More succinctly, every dollar of tax monies spent on HCC education will generate a total of $11.40 worth of social savings.**[28]

[28] A word of caution—the RR approach sometimes generates percentage results that defy the imagination. Technically, the approach requires at least one negative cash flow (tuition plus opportunity cost of time) to offset all subsequent positive flows. A very high percentage return may be technically correct, but perhaps not consistent with conventional understanding of returns expressed as percentages. For purposes of the reports prepared for all colleges in the statewide system, therefore, we express all RR results as: "NA" (particularly for the broad taxpayer perspective where high returns are expected). Only the B/C ratio is reported for the broad taxpayer perspective.

Table 3.7. Taxpayer Perspective: Broad ($ Thousands)

Year	1 All Benefits	2 Benefits from Alt. Ed. Opportunities	3 Benefits w/o State & Local Gov Funding	4 Net Benefits	5 Total Taxpayer Costs	6 Less College Income Cash Flow
1	$33,964	$859	$11,650	$21,455	$14,588	$6,867
2	$5,793	$927	$1,987	$2,879	$0	$2,879
3	$6,953	$1,113	$2,385	$3,456	$0	$3,456
4	$7,426	$1,188	$2,547	$3,691	$0	$3,691
5	$7,931	$1,269	$2,720	$3,942	$0	$3,942
6	$8,469	$1,355	$2,905	$4,209	$0	$4,209
7	$9,039	$1,446	$3,100	$4,492	$0	$4,492
8	$9,639	$1,542	$3,306	$4,791	$0	$4,791
9	$10,269	$1,643	$3,522	$5,104	$0	$5,104
10	$10,927	$1,748	$3,748	$5,431	$0	$5,431
11	$11,611	$1,858	$3,983	$5,771	$0	$5,771
12	$12,318	$1,971	$4,225	$6,122	$0	$6,122
13	$13,046	$2,087	$4,475	$6,484	$0	$6,484
14	$13,791	$2,207	$4,730	$6,854	$0	$6,854
15	$14,550	$2,328	$4,991	$7,231	$0	$7,231
16	$15,319	$2,451	$5,254	$7,614	$0	$7,614
17	$16,094	$2,575	$5,520	$7,999	$0	$7,999
18	$16,871	$2,699	$5,787	$8,385	$0	$8,385
19	$17,646	$2,823	$6,053	$8,770	$0	$8,770
20	$18,413	$2,946	$6,316	$9,151	$0	$9,151
21	$19,168	$3,067	$6,575	$9,527	$0	$9,527
22	$19,906	$3,185	$6,828	$9,893	$0	$9,893
23	$20,622	$3,300	$7,073	$10,249	$0	$10,249
24	$21,312	$3,410	$7,310	$10,592	$0	$10,592
25	$21,970	$3,515	$7,536	$10,919	$0	$10,919
26	$22,591	$3,615	$7,749	$11,228	$0	$11,228
27	$23,172	$3,708	$7,948	$11,517	$0	$11,517
28	$23,708	$3,793	$8,132	$11,783	$0	$11,783
29	$24,196	$3,871	$8,299	$12,025	$0	$12,025
30	$24,631	$3,941	$8,448	$12,241	$0	$12,241
31	$25,010	$4,002	$8,578	$12,430	$0	$12,430
32	$25,331	$4,053	$8,689	$12,589	$0	$12,589
33	$25,591	$4,095	$8,778	$12,719	$0	$12,719
34	$25,789	$4,126	$8,846	$12,817	$0	$12,817
35	$25,923	$4,148	$8,891	$12,884	$0	$12,884
36	$25,992	$4,159	$8,915	$12,918	$0	$12,918
37	$25,996	$4,159	$8,916	$12,920	$0	$12,920
38	$25,935	$4,150	$8,896	$12,890	$0	$12,890
39	$25,810	$4,130	$8,853	$12,827	$0	$12,827
NPV				$159,948	$14,027	$145,921
IRR						NA
B/C ratio						11.4
Payback (years)						NA

The Narrow Taxpayer Perspective

Table 3.8 provides an investment analysis of HCC from the narrow taxpayer perspective. Recall from **Chapter 2** that the narrow perspective considers only monies that actually appear on the books of state and local governments: revenue items such as tax receipts, and expenditure items such as road, bridge and street maintenance, police, public libraries and hospitals, jails and prisons, welfare payments, and so on.

Table 3.8, Column 1 shows additions to state and local government revenues stemming from the operation of HCC during the single analysis year. The values in Column 1 are

computed by applying average state and local government tax rates to the net increase in regional income attributed to HCC.[29]

Also included in Column 1 are reductions (entered as negatives) in state and local government expenditures on crime, welfare, unemployment and health. Projected dollar amounts in Column 1 are thus the sum of additional taxes collected, plus associated tax dollars saved as a result of the education provided by HCC during the single analysis year. As in **Table 3.7**, Column 2 reflects the adjustment attributable to the alternative education variable.

Column 3 reflects the ability of the CC to operate without the current level of state and local government support, as discussed above and in **Appendix 3**. Our analysis assumes that if HCC enrollment drops to 25% of the current level due to reduction of state support and the subsequent tuition increase, the CC would have to shut its doors. The benefits that the CC would generate from operating at this level without the state and local government support are calculated in Column 3. In the case of HCC, the zero state and local government funding level is 41% of the current level, above the 25% shutdown level, so the adjustment in Column 3 applies. Column 4 is simply Column 1 less Columns 2 and 3.

Column 5 shows the state and local government expenditure in support of HCC for the analysis year, a value obtained directly from **Table 2.1**. Finally, Column 6 subtracts state and local government cost (Column 5) from the net benefits (Column 4), thereby providing the temporal cash flow needed for the investment analysis. As shown at the bottom of the table, HCC provides state and local government with an annual return of $12.5 million expressed as a net present value on its one year investment. Alternatively, the one year investment generates a 8.9% RR and a B/C ratio of 1.9, both indicating that the investment is attractive. The payback period is 12.4 years.

The returns shown in **Table 3.8** would be attractive even in the private sector, and they are very attractive in the public sector. Recall that the public sector generally undertakes those activities the private sector finds unprofitable, i.e., investments that generate book revenues insufficient to cover book costs, thus requiring taxpayer subsidy. For example, state governments fund the operation and maintenance of state parks at a substantial

[29] Increased regional income includes a portion of direct student earnings, salaries and wages at the college during the single analysis year, and an additional increment aimed at a collection of backward and forward multiplier effects.

loss, collecting revenues in the form of camping and entrance fees that cover only a fraction of costs. Taxpayers are willing to subsidize parks because they perceive off-budget benefits, e.g., access to the outdoors, local development effects, environmental protection, and so on, that justify the budgetary losses. Note that this broader collection of off-budget benefits would normally be captured in the broad taxpayer perspective.

Investments in public education are usually viewed in the same way as investments in parks and other publicly subsidized activities, i.e., activities that generate losses from a narrow investment perspective but are justified by net benefits from a broad investment perspective. As shown in **Table 3.8,** however, HCC is a notable exception to this general net-subsidy rule. The narrow perspective rate of return is strongly positive, and thereby indicates that the taxpayers' investments in the college generate increased public revenues and reduced expenditures that actually exceed the subsidy by taxpayers. **The practical effect of this is the following: if the investments made in HCC were reduced, taxes would actually have to be raised in order for state and local governments to continue their support of other activities at current levels. The taxpayer investments of 44% of the HCC budget (Table 2.1), in effect, subsidize other sectors of the economy that also receive taxpayer support. The simple bottom line from the narrow taxpayer perspective is that benefits accruing to the taxpayers far outweigh the relatively low investments they make in HCC.**

With and Without Social Benefits

In **Chapter 2** the social benefits attributable to CC education (reduced crime, welfare and unemployment, and improved health) were defined as *external benefits*, incidental to the operations of the college. Colleges do not directly aim at creating these benefits. Some would question the legitimacy of including these benefits in the calculation of the rates of return to higher education, arguing that only the direct benefits—the higher earnings—should be counted. **Tables 3.7** and **3.8** are both inclusive of the social benefits reported here as attributable to the college. Recognizing the other point of view, **Table 3.9** shows the rates of return for both the broad and narrow perspectives exclusive of the social benefits. As indicated, the returns are still well above the threshold values (a B/C ratio greater than 1) confirming that the taxpayers receive great value from investing in HCC.

Table 3.8. Taxpayer Perspective: Narrow ($ Thousands)

Year	1 Total Taxpayer Benefits	2 Benefits from Alt. Ed. Opportunities	3 Benefits w/o State & Local Gov Funding	4 Net Taxpayer Benefits	5 Total Taxpayer Costs	6 Net Cash Flow
1	$5,602	$70	$1,922	$3,611	$14,588	($10,977)
2	$960	$154	$329	$477	$0	$477
3	$1,152	$184	$395	$572	$0	$572
4	$1,229	$197	$422	$611	$0	$611
5	$1,313	$210	$450	$652	$0	$652
6	$1,401	$224	$481	$696	$0	$696
7	$1,495	$239	$513	$743	$0	$743
8	$1,594	$255	$547	$792	$0	$792
9	$1,698	$272	$582	$844	$0	$844
10	$1,806	$289	$620	$898	$0	$898
11	$1,919	$307	$658	$954	$0	$954
12	$2,035	$326	$698	$1,012	$0	$1,012
13	$2,155	$345	$739	$1,071	$0	$1,071
14	$2,278	$364	$781	$1,132	$0	$1,132
15	$2,403	$384	$824	$1,194	$0	$1,194
16	$2,530	$405	$868	$1,257	$0	$1,257
17	$2,657	$425	$911	$1,321	$0	$1,321
18	$2,785	$446	$955	$1,384	$0	$1,384
19	$2,913	$466	$999	$1,448	$0	$1,448
20	$3,039	$486	$1,043	$1,511	$0	$1,511
21	$3,164	$506	$1,085	$1,572	$0	$1,572
22	$3,285	$526	$1,127	$1,633	$0	$1,633
23	$3,403	$545	$1,167	$1,691	$0	$1,691
24	$3,517	$563	$1,206	$1,748	$0	$1,748
25	$3,625	$580	$1,243	$1,802	$0	$1,802
26	$3,728	$596	$1,279	$1,853	$0	$1,853
27	$3,823	$612	$1,311	$1,900	$0	$1,900
28	$3,912	$626	$1,342	$1,944	$0	$1,944
29	$3,992	$639	$1,369	$1,984	$0	$1,984
30	$4,064	$650	$1,394	$2,020	$0	$2,020
31	$4,126	$660	$1,415	$2,051	$0	$2,051
32	$4,179	$669	$1,433	$2,077	$0	$2,077
33	$4,222	$675	$1,448	$2,098	$0	$2,098
34	$4,254	$681	$1,459	$2,114	$0	$2,114
35	$4,276	$684	$1,467	$2,125	$0	$2,125
36	$4,288	$686	$1,471	$2,131	$0	$2,131
37	$4,288	$686	$1,471	$2,131	$0	$2,131
38	$4,278	$685	$1,467	$2,126	$0	$2,126
39	$4,258	$681	$1,460	$2,116	$0	$2,116
NPV				$26,479	$14,027	$12,452
IRR						8.9%
B/C ratio						1.9
Payback (years)						12.4

Table 3.9. Taxpayer Perspective ($ Thousands)

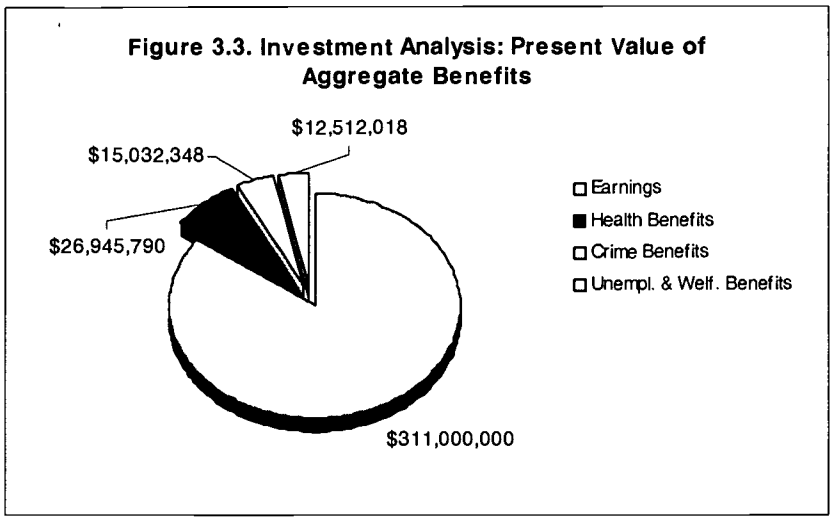
	Broad Perspective With Social Savings		Narrow Perspective With Social Savings	
	Included	Excluded	Included	Excluded
NPV	$145,921	$118,839	$12,452	$7,866
IRR	NA	NA	8.9%	7.0%
B/C ratio	11.4	9.5	1.9	1.6
Payback (years)	NA	NA	12.4	12.7

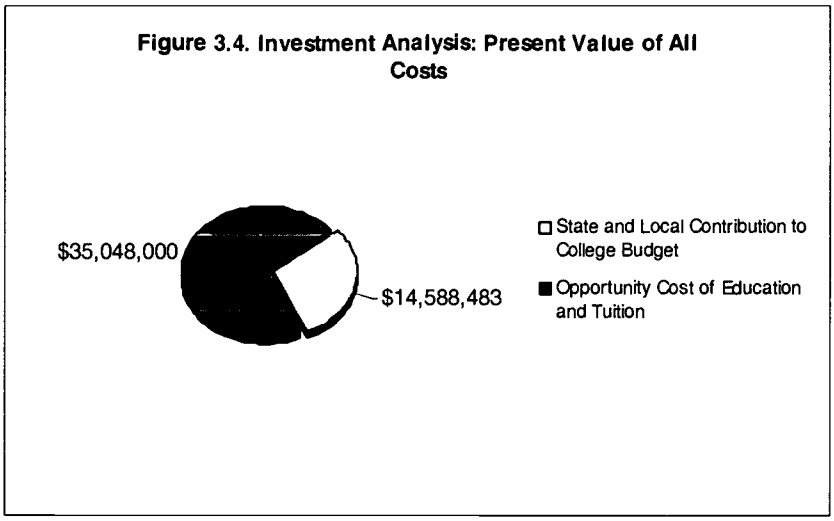
Summary

A summary of the investment analysis results (also reported in **Tables 3.6 – 3.8** above) is provided in **Table 3.10,** on aggregate, per CHE, and per student bases. The pie chart in **Figure 3.3** shows the breakdown of the present values of the aggregate benefits, taken from **Table 3.10. Figure 3.4** shows the breakdown of the investments made by the students (tuition and fees plus opportunity cost of time) and the contribution made by the state through local taxes and appropriations (see "PV of all costs" in **Table 3.10**).

Table 3.10. Benefit - Cost Summary

	Aggregate	Per Credit	Per Student
PV of student benefits, increased earnings	$ 311,000,000	$2,278	$ 11,928
Health benefits, captured by society			
PV of absenteeism savings	$ 13,158,161	$96	$ 505
PV of tobacco and alcohol abuse medical savings	$ 13,787,629	$101	$ 529
Crime			
PV of reduced incarceration	$ 5,770,977	$42	$ 221
PV of reduced victim costs	$ 6,355,867	$47	$ 244
PV of earnings (opportunity gained)	$ 2,905,504	$21	$ 111
Unemployment and welfare			
PV of reduced welfare rolls	$ 8,646,733	$63	$ 332
PV of reduced unemployment	$ 3,865,284	$28	$ 148
Sum of all present values, benefits	$ 365,490,156	$ 2,677	$ 14,017
PV of all costs			
PV of state and local contribution to college budget	$ 14,588,483	$107	$ 560
PV of opportunity cost of education + tuition	$ 35,048,000	$257	$ 1,344
Sum of all present values, costs	$ 49,636,483	$ 364	$ 1,904
NPV, Student Perspective		$277,295	
RR, Student Perspective		24%	
B/C Ratio, Student Perspective		9.2	
Payback Period, Student Perspective		6.4	
NPV, Taxpayer Perspective: Broad		$145,921	
RR, Taxpayer Perspective: Broad		NA	
B/C Ratio, Taxpayer Perspective: Broad		11.4	
Payback Period, Taxpayer Perspective: Broad		NA	
NPV, Taxpayer Perspective: Narrow		$12,452	
RR, Taxpayer Perspective: Narrow		8.9%	
B/C Ratio, Taxpayer Perspective: Narrow		1.9	
Payback Period, Taxpayer Perspective: Narrow		12.4	





REGIONAL ECONOMIC BENEFITS

HCC plays an important role in the resiliency, growth and development of the regional economy. In 2002, the Hawkeye Community College District generated overall earnings (wages, salaries and proprietors' income) equal to $5.09 billion.[30] The portion of this total credited to the existence of HCC is discussed in the four subsections below, both in

[30] Total earnings for the Hawkeye Community College District are obtained from Woods & Poole Economic, Inc. (see www.woodsandpoole.com). Woods & Poole Economic, Inc. specializes in county-level economic and demographic projections. Their earnings estimates are based on estimates published by the US Department of Commerce, Regional Economic Information System (REIS), projected forward on the basis of historic trends.

the aggregate and with industry detail. The industry-specific analysis highlights HCC's contribution to the local business community.

We begin with the day-to-day operating and capital expenditures of the college. These are fed into the regional IO model to estimate the earnings impacts generated by industry. Next, we consider the value of workforce-embodied CHEs to the earnings of past HCC students, and then estimate the net portion that can be counted as increased regional income—the *direct impact* of past HCC instruction. In the third section we utilize the multipliers of the regional IO model and estimate the *indirect impact* of past HCC instruction on regional earnings. In the fourth and final subsection we combine the three separate effects: 1) CC operations and capital spending effects, 2) past-HCC student direct effects, and 3) past HCC student indirect effects, to arrive at the overall aggregate effect of HCC on earnings in the Hawkeye Community College District.

Earnings Linked to HCC Operation and Capital Spending

Table 2.10 in **Chapter 2** shows HCC's operating and capital spending during the analysis year. The last column (Column 6) of that table shows how much of the overall spending is captured by local vendors and other suppliers, i.e., the portion that stays in the local economy. The values in Column 6 are applied to the Hawkeye Community College District IO model to estimate the associated multiplier effects.

Table 3.11 shows the results of the IO multiplier analysis of HCC operating and capital spending. Column 1 is for reference, showing 2002 total e*arnings* by industry. Column 2 shows the portion of total earnings explained by (or accounted for by) HCC spending, and Column 3 shows college-linked earnings as a percentage of total earnings by industry. For example, the construction sector in the Hawkeye Community College District had $321.06 million in total earnings in 2002. Of this, HCC spending accounts for $169.80 thousand (or 0.1%). Similarly, the business-services sector (services to buildings, advertising, reproduction, legal and accounting services, etc.) had $282.44 million in total earnings in 2002, of which $2.38 million (or 0.8%) was explained by HCC spending. All told, HCC spending explained $25.42 million, or 0.5% of all regional earnings in 2002.

Table 3.11. Earnings Linked to HCC Operations Expenditures

Industries	Earnings Baseline ($1,000) 1	Earnings College-Linked ($1,000) 2	% College-Linked 3
Agriculture & Agricultural Services	$29	$67	0.02%
Min	$8,953	Sand, and Grave $0	0.00%
Construction	$321,060	$170	0.05%
Manufacturing: Food/Wood & Paper/Textiles	$311,699	$245	0.08%
Manufacturing: Chemicals/Petroleum/Stone & Glass	$728,221	$266	0.04%
Manufacturing: Computer & Electronic Equipment	$2,706	$1	0.04%
Manufacturing: Other	$100,230	$18	0.02%
Transportation	$123,392	$166	0.13%
Public Utilities	$22,343	$150	0.67%
Publishing & Communications	$75,260	$113	0.15%
Trade	$749,512	$1,070	0.14%
Finance, Insurance, and Real Estate	$297,410	$1,141	0.38%
Motels & Eating/Drinking & Amusement/Recreation	$160,617	$401	0.25%
Consumer Services	$145,429	$256	0.18%
Business Services	$282,441	$2,380	0.84%
Medical/Educational/Social services	$637,667	$1,206	0.19%
Federal Government	$95,757	$162	0.17%
State & Local Government (less the college)	$721,906	$183	0.03%
HCC	$17,421	$17,421	100.00%
Total	$5,090,185	$25,415	0.50%

0,258

Past Student Economic Development Effects: The Direct Effect

Switching now to the past students, the objective is to assign value to the embodied CHEs still operative in the local workforce. These skills increase the productivity of the regional workforce: existing industry becomes more efficient, competitive, and able to expand product lines. Also, new industry can be attracted to the region. The net effect is an enlargement of regional income whether existing industry expands or new industry is created.

In **Table 2.13** we derived an estimate of 1.4 million of past HCC CHEs embodied in the present-day regional workforce. In **Table 3.12**, we detail the steps that take us from CHEs embodied in the workforce to an estimate of the *net* impact of HCC instruction on regional earnings:

- Step 1: We show the 1.4 million of past HCC CHEs embodied in the current workforce.
- Step 2: As shown earlier in this chapter (**Table 3.3**), the average net value for earnings was reported as $120. The net value was derived as the gross value less

10%.[31] For the regional economic development effect, however, we need to begin with the *gross* value per CHE, or $136.

- Step 3: The product of the total embodied CHEs and the gross value per CHE comprises the initial estimate of the aggregate addition to past student earnings of HCC instruction.

- Step 4: In **Chapter 2, Table 2.2** we described the source and meaning of the "alternative education opportunity variable:" absent HCC, 16.0% of the students would still be able to obtain their education elsewhere. This portion of the added earnings is not credited to HCC in the calculation of regional growth effects for reasons stated in the previous chapter. The initial estimate of the aggregate addition to past student earnings, therefore, is restated as the net of the alternative education opportunity, indicated in **Table 3.12**.

- Step 5: Finally, the last adjustment reduces the earnings of past students to all but 33% of the previous number. As discussed in detail in **Chapter 2** (see text box on polar cases), the reasons for the significant discounting of past student earnings pertains largely to issues of worker substitution, i.e., the substitution of local skilled for local unskilled workers, and the substitution of out-of-area workers for in-area workers. As for the specific 33% value, this is borrowed from the economics literature on national income growth and education (see: Bils and Klenow, 2000).

Table 3.12. Estimating the Net Regional Income Effect of Embodied HCC CHEs

	Variables
Total embodied CHEs	1,412,364
Gross value per HCC CHE	$136
Increased earnings of past HCC students	$192,421,986
Alternative education %	16%
Gross earnings attributable to HCC, net of alternative education variable	$161,634,468
Substitution Effects Rate	33%
Net earnings attributable to HCC	$53,339,374

[31] **Table 3.3** assigns a $120 net per CHE value of HCC instruction. This is a net value reflecting a 10% reduction from the gross value of $53.34 million to account for a collection of correlation-causation factors as discussed in **Chapter 2** under the section "Annual Private Benefits." Rather than *personal* income effects, however, the present section looks at *regional* income effects. Estimating the latter entails an entirely different set of correlation-causation adjustments; hence, we start again with the gross value, $53.34 million.

As shown in the last entry of **Table 3.12**, our analysis concludes that earnings in the Hawkeye Community College District are $53.34 million larger than they would be otherwise, because of the skills of past HCC students embodied in the present-day workforce.

The local and regional business community is naturally interested in how HCC affects its operations. This is shown in **Table 3.13**. Beginning with Column 4 in **Table 2.13,** the distribution of CHEs by industrial sector is translated in **Table 3.13** into the increase in aggregate earnings across these same industrial sectors. The distribution of aggregate earnings is based on the distribution of past-student CHEs (**Table 2.13**, Column 4), weighted according to relative industry earnings.

The dollar figures shown in Column 2 of **Table 3.13** indicate how much larger the earnings in these industries are as a direct result of the HCC skilled workers they employ. The Finance, Insurance, and Real Estate sector, for example, is estimated to employ HCC students with a combined 181,066 hours of HCC CHEs (see **Table 2.13**). Because of the skills of these past students, the Finance, Insurance, and Real Estate sector is estimated to generate earnings that are $297.41 million (or 2.1% larger than they would be otherwise). The benefit to the business community is simply this: additional earnings mirror additional business volume, sales revenues, and property incomes. The direct effect of past HCC students on other sectors is shown in the table. The economy-wide direct effects of past HCC student skills in the Hawkeye Community College District are shown in the bottom row of **Table 3.13**: overall regional earnings are $53.34 million (or 1.0%) higher than they would be if HCC did not exist.

Earnings are larger because outputs are larger, existing industries produce more, and new industries are attracted to the region by the existence of a skilled workforce. The earnings effects shown in **Table 3.13** are called *direct effects*, because they reflect a portion of the increased earnings of past HCC students themselves.

Table 3.13. Past Student Direct Effects

	Earnings		
	Baseline	College-Linked	% College Linked
	----------($1,000)----------		
Industries	1	2	3
Agriculture & Agricultural Services	$290,258	$301	0.1%
Mining, Sand, and Gravel	$6,857	$7	0.1%
Construction	$321,060	$333	0.1%
Manufacturing: Food/Wood & Paper/Textiles	$311,699	$1,615	0.5%
Manufacturing: Chemicals/Petroleum/Stone & Glass	$728,221	$7,546	1.0%
Manufacturing: Computer & Electronic Equipment	$2,706	$56	2.1%
Manufacturing: Other	$100,230	$1,039	1.0%
Transportation	$123,392	$639	0.5%
Public Utilities	$22,343	$116	0.5%
Publishing & Communications	$75,260	$1,560	2.1%
Trade	$749,512	$7,766	1.0%
Finance, Insurance, and Real Estate	$297,410	$6,163	2.1%
Motels & Eating/Drinking & Amusement/Recreation	$160,617	$832	0.5%
Consumer Services	$145,429	$753	0.5%
Business Services	$282,441	$2,927	1.0%
Medical/Educational/Social services	$637,667	$13,215	2.1%
Federal Government	$95,757	$992	1.0%
State & Local Government	$739,327	$7,480	1.0%
Total	$5,090,185	$53,339	1.0%

Past Student Economic Development Effects: The Indirect Effect

To the direct effects shown in **Table 3.13**, we must now add *indirect effects* stemming from the action of the regional multiplier process. As earnings increase because of higher industry output, the demand for additional industry inputs increases as well. Moreover, with the higher *direct* earnings (shown in **Table 3.13**), workers have more money to spend, which increases sales in consumer-oriented sectors of the economy. On top of these added business inputs and worker expenditures, the action of the regional multiplier generates still further rounds of industry output and earnings.[32]

There is another part to the indirect effect. Economic development theory describes an *agglomeration effect* whereby regional growth itself stimulates growth (see "The Indirect Economic Development Effects of Students" discussion in **Chapter 2**). In general, agglomeration occurs when additional regional output attracts new industry, facilitates

[32] The multiplier effects described in this paragraph are traditional "backward" multiplier effects, and are estimated by applying the change in sectoral earnings shown in **Table 3.13** to the Hawkeye Community College District IO model.

economies of scale, enhances workforce efficiency through information sharing, and otherwise enhances the regional business climate.[33]

Table 3.14 shows the total of the various indirect effects that accompany the direct effects of **Table 3.13**. These effects reflect increased business outputs independent of the actual employment of past HCC students in particular sectors: i.e., they reflect the action of the multiplier process.

Table 3.14. Past Student Indirect Effects

Industries	Earnings Baseline ($1,000)	Earnings College-Linked ($1,000)	% College-Linked
Agriculture & Agricultural services	$290,258	$1,631	0.6%
Mining, Sand, and Gravel	$6,857	$20	0.3%
Construction	$321,060	$2,440	0.8%
Manufacturing: Food/Wood & Paper/Textiles	$311,699	$2,672	0.9%
Manufacturing: Chemicals/Petroleum/Stone & Glass	$728,221	$5,287	0.7%
Manufacturing: Computer & Electronic Equipment	$2,706	$14	0.5%
Manufacturing: Other	$100,230	$321	0.3%
Transportation	$123,392	$1,730	1.4%
Public Utilities	$22,343	$298	1.3%
Publishing & Communications	$75,260	$762	1.0%
Trade	$749,512	$8,336	1.1%
Finance, Insurance, and Real Estate	$297,410	$4,704	1.6%
Motels & Eating/Drinking & Amusement/Recreation	$160,617	$2,266	1.4%
Consumer Services	$145,429	$2,045	1.4%
Business Services	$282,441	$4,870	1.7%
Medical/Educational/Social services	$637,667	$8,174	1.3%
Federal Government	$95,757	$1,135	1.2%
State & Local Government	$739,327	$3,839	0.5%
Total	$5,090,185	$50,543	1.0%

Focusing on particular effects, we can now say that because of the indirect effect of past HCC students, earnings in the Business Services sector will be $4.87 million (or 1.7%) higher than would otherwise be the case. Other indirect sectoral effects are as shown in the table. The bottom row of **Table 3.14** indicates that region-wide total earnings are $5.09 billion (or 1.0%) larger due to the indirect effect of past HCC students.

[33] We estimate agglomeration effects as "forward" multiplier effects. The Hawkeye Community College District IO model is configured to provide a set of so-called supply-driven multipliers (see for example Miller and Blair, 1985). Agglomeration effects are obtained by applying the change in higher stage sectoral earnings from **Table 3.13** to the supply-driven form of the Hawkeye Community College District IO model.

Overall Effect of HCC on the Regional Economy

The tables above detail the regional economic effects attributable to HCC in three parts. The effect of day-to-day college operations and capital spending is shown in **Table 3.11**. The direct effect of past HCC students still active in the workforce is shown in **Table 3.13**. Finally, the indirect effect of past HCC students still active in the workforce is shown in **Table 3.14**. **Table 3.15** combines these separate effects into one summary table.

Table 3.15. Total Effect

Industries	Earnings Baseline	Earnings College-Linked	% College-Linked
	----------($1,000)----------		
Agriculture & Agricultural services	$290,258	$1,999	0.7%
Mining, Sand, and Gravel	$6,857	$28	0.4%
Construction	$321,060	$2,943	0.9%
Manufacturing: Food/Wood & Paper/Textiles	$311,699	$4,533	1.5%
Manufacturing: Chemicals/Petroleum/Stone & Glass	$728,221	$13,099	1.8%
Manufacturing: Computer & Electronic Equipment	$2,706	$72	2.6%
Manufacturing: Other	$100,230	$1,377	1.4%
Transportation	$123,392	$2,535	2.1%
Public Utilities	$22,343	$563	2.5%
Publishing & Communications	$75,260	$2,435	3.2%
Trade	$749,512	$17,172	2.3%
Finance, Insurance, and Real Estate	$297,410	$12,008	4.0%
Motels & Eating/Drinking & Amusement/Recreation	$160,617	$3,498	2.2%
Consumer Services	$145,429	$3,054	2.1%
Business Services	$282,441	$10,176	3.6%
Medical/Educational/Social services	$637,667	$22,595	3.5%
Federal Government	$95,757	$2,289	2.4%
State & Local Government (less the college)	$721,906	$11,502	1.6%
HCC	$17,421	$17,421	100.0%
Total	$5,090,185	$129,298	2.5%

Individual rows in **Table 3.15** show how particular industries benefit from the past and present existence of HCC. For example, our analysis suggests the Hawkeye Community College District's Finance, Insurance, and Real Estate sector owes $297.41 million (or 4.0%) of its overall earnings to the past and present existence of HCC. The effect of HCC on other industries is shown in the table. The bottom row of **Table 3.15** indicates that region-wide earnings are $5.09 billion (or 2.5%) larger due to the past and present existence of HCC.

Table 3.16 provides one last view of the regional economic effects of HCC, a fully aggregated view with no industry detail. Consider the items under the heading "Earnings Attributable to HCC Operations." The first item is simply the wages and

salaries of HCC faculty and staff, $17.4 million, or 0.3% of overall regional earnings (this item is also shown in college spending **Table 2.11**). The second item shows the indirect effect of the college's operations and capital spending: $8.0 million, or 0.2% of all regional earnings. All told, HCC's operations and capital spending can be credited with $25.4 million, or 0.5% of the Hawkeye Community College District's $5.1 billion in overall earnings.

The next set of items detail the effect of past HCC students still active in the Hawkeye Community College District workforce. Past students directly explain $53.3 million, or 1.0% of all regional earnings (shown on the total row of **Table 3.13**). These same students indirectly explain $50.5 million, or 1.0% of all regional earnings (shown on the total row of **Table 3.14**). In all, past HCC students still active in the workforce can be credited with $103.9 million, or 2.0% of all earnings in the Hawkeye Community College District.

Finally, the bottom row of **Table 3.16** shows HCC's overall role in the Hawkeye Community College District economy: $129.3 million, or 2.5% of all regional earnings.

Table 3.16. Summary of HCC Role in the Regional Economy

	Earnings ($Thousands)	% of Total
Total Earnings in College-Hosting Region	$5,090,185	100.00%
Earnings Attributable to HCC Operations		
Direct Earnings of Faculty and Staff	$17,421	0.3%
Indirect Earnings	$7,995	0.16%
TOTAL	$25,415	0.5%
Earnings Attributable to Past Student Econ. Dev. Effects		
Direct Earnings	$53,339	1.0%
Indirect Earnings	$50,543	1.0%
TOTAL	$103,882	2.0%
GRAND TOTAL	$129,298	2.5%

Chapter 4
SENSITIVITY ANALYSIS OF KEY VARIABLES

INTRODUCTION

We conclude this study with a sensitivity analysis of some key variables on both the investment and regional economic development sides. The purpose of the sensitivity analysis is twofold:

1. *To set our approach apart from "advocacy" education impact analyses.* Many of these may lack uniformity and use assumptions that will not stand up to rigorous peer scrutiny, and they often generate results that grossly overstate benefits. The approach taken here is to account for all relevant variables on both the benefit and cost sides as reflected in the conservatively estimated base case assumptions laid out in **Chapter 2**. The sensitivity tests include: a) the impacts associated with changes in the student employment variables for the investment analysis, and b) the addition of student spending and sales (as opposed to earnings only) to the regional economic development analysis.

2. *To test the sensitivity of the results associated with the assumptions for which college researchers have applied judgment and innovative thinking rather than hard data to estimate the numbers.* Some may even refer to these variables as educated guesswork. They include the "Alternative Education" and "Attrition Rate" variables discussed in **Chapter 2**.

THE STUDENT EMPLOYMENT VARIABLES

Probably the most difficult data to collect are for the two employment variables (because colleges generally do not collect this kind of information as a matter of formal routine): 1) the percent of the students employed, and 2) of those employed, the earnings received by the students relative to the full earnings they would have received if not attending HCC. Both employment variables relate to the earnings foregone by the students—the opportunity cost of time—and they affect the investment analysis results (NPV, RR, B/C, and payback period).

Percent of Students Employed

The students incur substantial expense by attending HCC because of the time they spend not gainfully employed. Some of that cost is recaptured if the student remains partially (or fully) employed while attending. It is estimated that 94% of the current student body is employed. We test this variable in the sensitivity analysis by changing this assumption to 100%. This change would mean that *all* of the students are employed, reducing the average opportunity cost of time accordingly.

Percent of Earnings Relative to Full Earnings

The second opportunity cost variable is more difficult to estimate. For HCC it is estimated that the students working while attending classes earn only 66%, on average, of the earnings they would have statistically received if not attending the CC. This suggests that many of the students hold part-time jobs earning minimum wage (or less than their "statistical" wages). The model captures these differences and counts them as a part of the opportunity cost of time. As above, we test this variable in the sensitivity analysis by changing the assumption to 100%. This would mean that the students are fully employed, and the average opportunity cost of time would be reduced accordingly.

Results

The changed assumptions (both of which would be consistent with advocacy analysis) generate the results summarized in **Table 4.1**. Here, the base case assumptions taken from **Table 2.2** are reflected in the two shaded rows for the variables tested—94% for the portion of students employed, and 66% for their earnings relative to the statistical averages. These (base case) assumptions are held constant in the shaded rows for the student perspective. The sensitivity analysis results are shown in the non-shaded rows—the extent to which the investment analysis results would change if the two base case variables were increased to 100%, first separately, and second, together. Changing both assumptions to 100% (all students fully employed) would automatically increase the benefits because the opportunity cost of time would reduce to zero.

1. Increasing the students employed assumption from 94% to 100% first (holding all of the other assumptions constant), the RR, B/C, and payback period results would improve to 25.3%, 9.9, and 6.1 years, respectively, relative to the base case

results. The improved results are attributable to a lower opportunity cost of time—all students would be employed in this case.

2. Increasing the earnings relative to the statistical averages from 66% to 100% second (holding the second employment assumption constant at the base case level), the RR, B/C, and payback period results would improve to 53.0%, 23.6, and 3.3 years, respectively, relative to the base case results—a strong improvement over the base case results, again attributable to a lower opportunity cost of time.

3. Finally, increasing both of the above assumptions to 100% simultaneously, the RR, B/C, and payback period results would improve yet further to 53.0%, 23.6, and 3.3 years, respectively, relative to the base case results. This scenario assumes that all students are fully employed and earning full salaries (equal to the statistical averages) while attending classes. These results are unrealistic, albeit not uncommon for advocacy analyses.

Table 4.1 Sensitivity Analysis of Student Perspective

Variables	Assumptions	RR	B/C	Payback
1. Percent Employed	94%	23.9%	9.2	6.4
	100%	25.3%	9.9	6.1
2. Percent of Earnings	66%	23.9%	9.2	6.4
	100%	53.0%	23.6	3.3
1 = 100%, 2 = 100%		53.0%	23.6	3.3

A final note to this section—we strongly emphasize that the base case results are very attractive—the results are all well above their threshold levels, and the payback periods are short. As clearly demonstrated here, advocacy results *appear* much more attractive, although they would overstate the benefits. The results presented in **Chapter 3** are *realistic*, indicating that investments in HCC will generate excellent returns, well above the long-term average percent rates of return of roughly 7% in the stock and bond markets.

Regional Economic Development

The economic impacts of higher education can be calculated in different ways. Our approach was to estimate the regional economic impacts of HCC based on college

operations and capital spending (**Table 3.16**), and the increased productivity effects of past HCC students in the regional workforce. The impacts are expressed in terms of regional *earnings*, i.e., area wages, salaries and proprietors' income, published by the U.S. Department of Commerce.[34] Others often add student spending to the impacts and express the results in terms of sales instead of earnings—both will substantially inflate the numerical measures of the impacts so that they appear larger than they really are. In the present section we address these two issues: 1) the addition of student spending effects to impact estimates, and 2) the expression of economic impacts in terms of regional gross sales rather than earnings.

The Economic Impact of Student Spending

Students spend money while attending college: they buy books and supplies, rent rooms, purchase food, pay for transportation, attend sports events, go to movies, and so on. These expenditures create jobs and incomes for local businesses, which, as argued by some, should be counted among the regional economic impacts attributable to the college.

In our analysis, however, we exclude student spending because most of the students already reside in the college region. Student expenditures, therefore, do not represent new monies in the region, but rather a redirection of monies that would have been spent anyway. The other side of the argument is that, even though the college-related spending of a resident student does not constitute new money, some students would leave the region to obtain an education elsewhere if the college were not present. Thus, the region loses the spending and related jobs and incomes. Both cases have merit, although we believe the former is more reasonable than the latter. This is because only a few students will actually be able to avail themselves of an education elsewhere (see **Table 2.9**). Our approach, therefore, is to exclude student spending, recognizing at the same time, that the regional impact estimates may err on the conservative side.

In **Table 4.2** we show the potential magnitude of student spending effects in the HCC region economy. The table parallels **Table 3.16** in the previous chapter, but adds the

[34] U.S. Department of Commerce, Regional Economic Information System (REIS) data includes earnings estimates for counties and states, and is published annually in the ***Department's Survey of Current Business***. It is also readily available in electronic form.

section "Earnings Attributable to Student Spending,"[35] creating some $24.4 million in additional earnings for the local businesses patronized by students (the direct effects), plus another $24.1 million in earnings stemming from related multiplier effects (indirect effects). Adding the student spending to the mix increases the HCC total "explanatory power" of the regional earnings from 2.5% in **Table 3.16** to 3.5% in **Table 4.2**.

Table 4.2. Summary of HCC Role in the Regional Economy - Earnings

	Earnings (S Thousands)	% of Total
Total Earnings in College-Hosting Region	$5,090,185	100%
Earnings Attributable to Student Spending		
Direct Earnings	$24,369	0.5%
Indirect Earnings	$24,061	0.5%
TOTAL	$48,430	1.0%
Earnings Attributable to HCC Operations		
Direct Earnings of Faculty and Staff	$17,421	0.3%
Indirect Earnings	$7,995	0.2%
TOTAL	$25,415	0.5%
Earnings Attributable to Past Student Econ. Dev. Effects		
Direct Earnings	$53,339	1.0%
Indirect Earnings	$50,543	1.0%
TOTAL	$103,882	2.0%
GRAND TOTAL	$177,728	3.5%

Economic Impacts Reported as Gross Sales

Advocates sometimes favor gross sales over earnings as an impact measure, because sales are always larger than the earnings. Using this as an impact measure has notable drawbacks, however. An immediate drawback is that, unlike earnings, there is generally no published total against which a sales impact can be measured. More importantly though, the most troublesome aspect of gross sales impact measures is captured in the following example:

> Two visitors spend $50,000 each in the economic region. One visits a local auto dealer and purchases a new luxury automobile. The other undergoes a medical procedure at the local hospital. In terms of direct economic impact, both have spent $50,000. However, the expenditures will likely have very different meanings to the local economy. Of the $50,000 spent for the luxury automobile, perhaps $10,000 remains in the county as

[35] We estimated student spending effects by borrowing average college student information from a study conducted for higher education economic impacts in Illinois (University of Illinois, 2000). Student spending by broad expenditure category was bridged to the sectors of the HCC regional economy input-output model. Adjustments were made consistent with the model's regional accounts to allow for spending leakages.

salesperson commissions and auto dealer income (part of the economic region's overall earnings), while the other $40,000 leaves the area for Detroit or somewhere else as wholesale payment for the new automobile. Contrast this to the hospital expenditure. Here perhaps $40,000 appears as physician, nurse, and assorted hospital employee wages (part of the county's overall earnings), while only $10,000 leaves the area, to pay for hospital supplies, or to help amortize building and equipment loans. In terms of sales, both have the same impact, while in terms of earnings, the former has one-fourth the impact of the latter.

Table 4.3 expresses the HCC impacts in terms of gross sales rather than earnings. Note that gross sales measures are everywhere larger than earnings. The economy-wide measure of total gross sales estimated by the economic model is $16.0 billion.[36] Direct local spending by students reflects their total spending, reduced by the estimated portion that leaks out-of-region to purchase goods produced elsewhere.[37] In the usual fashion, indirect effects reflect the action of local economic multiplier effects, also estimated by the economic model.

Direct local expenditures include all spending by the college for consumer items and for faculty and staff salaries. Both items are reduced to reflect purchases from outside the region. All told, the operation of HCC is estimated to explain some $469.3 million in regional gross sales, a number substantially larger than the $177.7 million explained by the college in regional gross earnings shown in **Table 4.2**.

While the gross sales impacts shown in **Table 4.3** are not incorrect, we prefer to report college impacts in terms of earnings (**Table 3.16**) rather than gross sales, because they reflect the economic realities in the local community much more accurately. Advocacy studies, on the other hand, will often opt to express the results in terms of sales because the numbers are much more impressive. Such results, however, will likely not stand up to rigorous peer scrutiny in the economics profession.

[36] Simply stated, economy-wide gross sales are obtained by multiplying sector-specific regional earnings by a national estimate of sales-to-earnings.

[37] Students purchase gasoline for their cars, for example, and while the trade margin stays in the area, in most cases the producer price of gasoline itself will leak out to the oil-producing region.

Table 4.3. Summary of HCC Role in the Regional Economy - Sales

	Gross Sales (1,000)	% of Total
Total Gross Sales in College-Hosting Region	$15,981,071	100%
Gross Sales Attributable to Student Spending		
Direct Local Spending by Students	$69,485	0.4%
Indirect Spending Effect	$72,198	0.5%
TOTAL	$141,684	0.9%
Gross Sales Attributable to HCC Operations		
Direct Local Expenditures of HCC	$9,946	0.1%
Indirect Spending Effect	$13,908	0.1%
TOTAL	$23,853	0.1%
Gross Sales Attributable to Past Student Econ. Dev. Effects		
Direct Gross Sales	$149,334	0.9%
Indirect Gross Sales	$154,439	1.0%
TOTAL	$303,772	1.9%
GRAND TOTAL	$469,309	2.9%

VARIABLES REQUIRING "JUDGMENT"

The sensitivity analysis is a simple tool often used to determine "switching" values, which occur when the investment results turn from positive to negative, or from attractive to non-attractive as the assumptions are varied up and down. If the results change dramatically with only a small variation in the assumption, then that assumption is sensitive. If the results do not change much, the assumption is not sensitive, and minute accuracy in its specification is less important. The sensitivity analysis is also used to demonstrate how some results become unrealistic when advocacy assumptions are invoked.

Two variables have consistently raised concerns among institutional researchers—the "Alternative Education Opportunity" and "Attrition Rate" variables discussed in detail in **Tables 2.9** and **2.2**, respectively. Neither can be specified on the basis of hard data collected on a regular basis by the college; rather, they are based on well-informed judgments made by faculty and staff intimately familiar with the student body. Recall from **Chapter 2** that the alternative education opportunity variable (16.0% in **Table 2.9**) is characterized as a "negative benefit"—the taxpayer benefits are reduced by the percent indicated to account for the portion of the current student body who could obtain a similar education elsewhere, absent the college. The attrition rate (25% in **Table 2.2**) characterizes the mobility of the exiting students out of the region over the next 30 years or so through retirement, out-migration and/or death.

Given the nature of these variables and the difficulty in accurately specifying them, the obvious question is: how great a role do they play in the magnitudes of the results? The results are presented in the sensitivity analysis **Table 4.4**.

Table 4.4 Sensitivity Analysis of Alternative Education and Attrition Rate Variables

		-75%	-50%	-25%	Base Case	25%	50%	75%
Alternative Education Variable		4.0%	8.0%	12.00%	16%	20.00%	24.0%	28.0%
Narrow Taxpayer Perspective								
Investment results	NPV	$15,525	$14,500	$13,476	$12,452	$11,427	$10,403	$9,379
	RR	9.7%	9.4%	9.2%	8.9%	8.6%	8.2%	7.9%
	B/C ratio	2.1	2.0	2.0	1.9	1.8	1.7	1.7
	Pay Back	12.4	12.7	12.1	12.4	12.8	12.3	12.7
		-75%	**-50%**	**-25%**	**Base Case**	**25%**	**50%**	**75%**
Attrition Rate Variable		6.3%	12.5%	18.75%	25%	31.25%	37.5%	43.8%
Regional Economic Development								
Earnings Attributable to HCC		$138,743	$135,689	$132,545	$129,298	$125,934	$122,437	$118,784
% of Total Earnings in Region		2.7%	2.7%	2.6%	2.5%	2.5%	2.4%	2.3%
Credits Embodied in the Workforce		1,540,774	1,499,260	1,456,509	1,412,364	1,366,636	1,319,088	1,269,420

Alternative Education Opportunity

Variations in the Alternative Education assumption are calculated around the base case assumptions listed in the middle column of **Table 4.4** for the taxpayer perspective results (the variable does not affect the student investment analysis results). The NPV, RR, B/C and payback results listed in the base case column were all presented and discussed in **Chapter 3**. Next, we bracket the base case assumption on either side with plus or minus 25%, 50% and 75% variation in the assumptions. The analyses are then redone introducing one change at a time, holding all the other variables constant. For example, an increase of 25% in the Alternative Education assumption (from 16% to 20%) will reduce the narrow taxpayer perspective RR from 8.9% to 8.6%. Likewise, a decrease of 25% (from 16% to 12%) in the assumption will generate an increase in the RR from 8.9% to 9.2%.

Based on this sensitivity analysis, the conclusion can be drawn that the HCC investment analysis results from the narrow taxpayer perspective are not very sensitive to relatively large variations in the Alternative Education variable. As indicated, the results are still well above their threshold levels (NPV greater than 0, B/C ratio greater than 1, and RR greater than the discount rate of 4.0%) even when the Alternative Education assumption is increased by as much as 75% (from 16% to 28%). The conclusion is simply that, although the assumption is difficult to specify and will require judgment on the part of

the institutional researcher, its impact on the overall investment analysis results for the narrow taxpayer perspective is not very sensitive.

Attrition Variable

The attrition rate variable only affects the regional economic development results (**Table 3.16**). As above, we increase and decrease the assumption relative to the base case assumption of 25% (from **Table 2.2**) by the increments indicated in the table. The impacts on the results are more pronounced, as indicated in **Table 4.4**. Earnings attributable to the college, for example, range from a high of $138,743 at -75% to a low of $118,784 at a 75% variation from the base case assumption for this variable. This means that, if the attrition of the ex-students over time increases, the number of CHEs embodied in the current local workforce decreases; hence, the earnings attributable to the college decrease accordingly.

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Bethesda, Maryland 20892-7003, http://www.niaaa.nih.gov/.

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Appendix 1: Explaining the Results—a Primer

The purpose of this appendix is to provide some context and meaning to investment analysis results in general, using the simple hypothetical example summarized in **Table 1** below. The table shows the projected (assumed) benefits and costs over time for one student and the associated investment analysis results. [38]

Table 1. Costs and Benefits

	Tuition	Opportunity Cost	Total cost	Higher Earnings	NCF
1	$1,500	$20,000	$21,500	$0	($21,500)
2	$0	$0	$0	$5,000	$5,000
3	$0	$0	$0	$5,000	$5,000
4	$0	$0	$0	$5,000	$5,000
5	$0	$0	$0	$5,000	$5,000
6	$0	$0	$0	$5,000	$5,000
7	$0	$0	$0	$5,000	$5,000
8	$0	$0	$0	$5,000	$5,000
9	$0	$0	$0	$5,000	$5,000
10	$0	$0	$0	$5,000	$5,000
NPV			$20,673	$35,747	$15,074
IRR					18%
B/C ratio					1.7
Payback period					4.2 years

The assumptions are as follows:

1) The time horizon is 10 years—i.e., we project the benefits and costs out 10 years into the future (Column 1). Once the higher education has been earned, the benefits of higher earnings remain with the student into the future. Our objective is to measure these future benefits and compare them to the costs of the education.

2) The student attends the CC for one year for which he or she pays a tuition of $1,500 (Column 2).

[38] Note that this is a hypothetical example. The numbers used are not based on data collected from any of the community colleges.

3) The opportunity cost of time (the earnings foregone while attending the CC for one year) for this student is estimated at $20,000 (Column 3).

4) Together, these two cost elements ($21,500 total) represent the out-of-pocket investment made by the student (Column 4).

5) In return, we assume that the student, having completed the one year of study, will earn $5,000 more per year than he would have without the education (Column 5).

6) Finally, the net cash flow column (NCF) in Column 6 shows higher earnings (Column 5) less the total cost (Column 4).

7) We assume a "going rate" of interest of 4%, the rate of return from alternative investment schemes, for the use of the $21,500.

Now the "mechanics"—we express the results in standard investment analysis terms: the net present value (NPV), the internal rate of return (IRR—or, as referred to in the Main Report, simply the rate of return—RR), the benefit/cost ratio (B/C), and the payback period. Each of these is briefly explained below in the context of the cash flow numbers in **Table 1**.

THE NET PRESENT VALUE (NPV)

"A bird in hand is worth two in the bush." This simple folk wisdom lies at the heart of any economic analysis of investments lasting more than one year. The student we are tracking in **Table 1** has choices: a) to attend the CC, or b) forget about higher education and hold on to the present employment. If he or she decides to enroll, certain economic implications unfold: the tuition must be paid and earnings will cease for one year. In exchange, the student calculates that, with the higher education, his or her income will increase by at least the $5,000 per year as indicated in the table.

The question is simple: will the prospective student be economically better off by choosing to enroll? If we add up the higher earnings of $5,000 per year for the remaining nine years in **Table 1**, the total will be $45,000. Compared to a total investment of $21,500, this appears to be a very solid investment. The reality, however, is different—the benefits are far lower than $45,000 because future money is worth less than present

money. The costs (tuition plus foregone earnings) are felt immediately because they are incurred today—in the present. The benefits (higher earnings), on the other hand, occur in the future. They are not yet available. We must discount all future benefits by the going rate of interest (referred to as the discount rate) to be able to express them in present value terms.[39] A brief example: at 4%, the present value of $5,000 to be received one year from today is $4,807. If the $5,000 were to be received in year 10, the present value would reduce to $3,377. Or put another way, $4,807 deposited in the bank today earning 4% interest will grow to $5,000 in one year; and $3,377 deposited today would grow to $5,000 in 10 years. An "economically rational" person would, therefore, be equally satisfied receiving $3,377 today or $5,000 10 years from today given the going rate of interest of 4%. The process of discounting—finding the present value of future higher earnings—allows us to express values on an equal basis in future or present value terms.

Our goal is to express all future higher earnings in present value terms so that we can compare them to the investments incurred today—the tuition and foregone earnings. As indicated in **Table 1**, the cumulative present value of the flow of $5,000 worth of higher earnings between years 2 and 10 is $35,747 given the 4% interest rate, far lower than the undiscounted $45,000 discussed above.

The measure we are looking for is the NPV result of $15,074. It is simply the present value of the benefits less the present value of the costs, or $35,747 - $20,673 = $15,074. In other words, the present value of benefits exceeds the present value of costs by as much as $15,074. The criterion for an economically worthwhile investment is that the NPV is equal to or greater than zero. Given this result, it can be concluded that, *in this case*, and given these assumptions, this particular investment in CC education is very strong.

THE INTERNAL RATE OF RETURN (IRR)

The IRR is another way of measuring the worth of the investment in education using the same cash flows shown in **Table 1**. In technical terms—the IRR is a measure of the average earning power of the money used over the life of the investment. It is simply the interest rate that makes the NPV equal to zero. In the NPV example above we applied

[39] Technically, the interest rate is applied to compounding—the process of looking at deposits today and determining how much they will be worth in the future. The same interest rate is called a discount rate when we reverse the process—determining the present value of future earnings.

the "going rate" of interest of 4% and computed a positive NPV of $15,074. The question now is: what would the interest rate have to be in order to reduce the NPV to zero? Obviously it would have to be higher—18% in fact, as indicated in **Table 1**. Or, if we applied 18% to the NPV calculations instead of the 4%, then the NPV would reduce to zero.

What does this mean? The IRR of 18% defines a breakeven solution—the point where the present value of benefits just equals the present value of costs, or where the NPV equals zero. Or, at 18%, the higher incomes of $5,000 per year for the next 9 years will earn back all the investments of $21,500 made plus pay 18% for the use of that money (the $21,500) in the meantime. Is this a good return? Indeed it is—first, if we compare it to the 4% "going rate" of interest we applied to the NPV calculations, 18% is far higher than 4%. We can conclude, therefore, that the investment in this case is solid. Alternatively, we can compare the rate to the long-term 7% rate or so obtained from investments in stocks and bonds. Again, the 18% is far higher, indicating that the investment in CC education is strong relative to the stock market returns (on average).

A word of caution—the IRR approach can sometimes generate "wild" or "unbelievable" results—percentages that defy the imagination. Technically, the approach requires at least one negative cash flow (tuition plus opportunity cost of time) to offset all subsequent positive flows. For example, if the student works full time while attending college, the opportunity cost of time would be much lower—the only out-of-pocket cost would be the $1,500 paid for tuition. In this case, it is still possible to compute the IRR, but it would be a staggering 333% because only a negative $1,500 cash flow will be offsetting 9 subsequent years of $5,000 worth of higher earnings. The 333% return is technically correct, but not consistent with conventional understanding of returns expressed as percentages. For purposes of this report, therefore, we express all results in the Main Report exceeding 100% simply as: "> than 100%."

THE BENEFIT/COST RATIO (B/C)

The B/C ratio is simply the present value of benefits divided by present value of costs, or $35,747 / $21,500 = 1.7 (based on the 4% discount rate). Of course, any change in the discount rate will also change the B/C ratio. If we applied the 18% IRR discussed above, the B/C ratio would reduce to 1.0—or the breakeven solution where benefits just equal the costs. Applying a discount rate higher than the 18 percent would reduce the ratio to

less than one and the investment would not be feasible. The 1.7 ratio means that a dollar invested today will return a cumulative $1.70 over the 10-year time period.

THE PAYBACK PERIOD

This is the length of time from the beginning of the investment (consisting of the tuition plus the earnings foregone) until the higher future earnings return the investments made. In **Table 1**, it will take roughly 4.2 years of $5,000 worth of higher earnings to recapture the student's investment of $1,500 in tuition and the $20,000 earnings he or she foregoes while attending the CC. The higher earnings occurring *beyond* the 4.2 years are the returns (the "gravy") that make the investment in education *in this example,* economically worthwhile. The payback period is a fairly rough, albeit common, means of choosing between investments. The shorter the payback period is, the stronger the investment will be.

Appendix 2: Methodology for Creating Income Gains by Levels of Education

The US Bureau of the Census reports income in two ways:

1) Mean income by race and Hispanic origin and by sex.

2) Mean income by educational attainment and sex.

The first and second data sets can be found at the following sources:

U.S. Census Bureau and U.S. Department of Commerce. Table P-3: Race and Hispanic Origin of People by Mean Income and Sex: 1947 to 2000, and Table P-18: Educational Attainment--People 25 Years Old and Over by Mean Income and Sex: 1991 to 2000. Also consult:

http://www.census.gov/ftp/pub/hhes/income/histinc/histinctb.html

Further contact information: a) Income Surveys Branch, b) Housing & Household Economic Statistics Division, c) U.S. Census Bureau, and d) U.S. Department of Commerce.

The data needed for this analysis is mean income by educational attainment reported by race/ethnic origin and by sex. A model was developed to translate these two data sets into the data needed for the analysis. This was accomplished in the following way:

1. Mean income by race and sex is calculated as a percent of all races.

2. This percent is then applied to mean income by educational attainment. For example, African-American males make an average income of $28,392 versus $40,293 for all males, or 70% of the average income of all males.

3. This percent (70%) is then applied to the income levels by educational attainment for all males to estimate the income levels by educational attainment for African-American males.

4. To simplify the analysis, all nonwhite males are averaged together as are all nonwhite females. The same process is repeated for white males and white females.

5. The educational levels of attainment are aggregated together in some categories to model the educational system of community colleges. These numbers are then adjusted for inflation to 2001 dollars.

6. The final step is to adjust these income levels by state. The *Four Person Median Family Income by State* from the Bureau of the Census was used to make state level adjustments. Each state's median family income is taken as a percentage of the national average. These percentages are then applied to the income levels by educational attainment by race, ethnicity, and sex, as calculated earlier.

Appendix 3: Adjusting for the Benefits Available Absent State and Local Government Support

INTRODUCTION

The investment analysis presented in the Main Report weighs the benefits of CC enrollment (measured in terms of CHEs) against the support provided by state and local government. If, without state and local government support a CC would have to shut its doors, then it is entirely appropriate to credit all the benefits to that support. This brings up the question: is it in fact true that the CC would have to close its doors absent state and local government support? Increased tuition could almost certainly make up for some of the lost funds, although this would result in reduced enrollment. Still, if the school could remain open and operate at this "zero state and local government support level," then state and local government support can only be credited with the difference; i.e., the actual enrollment less the enrollment at zero state and local government support. This appendix documents our procedures for making these adjustments, which feed the broad and narrow taxpayer benefit-cost ratios, rates of return, and payback analyses estimates in the Main Report.

STATE AND LOCAL GOVERNMENT SUPPORT VERSUS TUITION

We start by exploring the issue with the aid of some graphics. **Figure 1** presents a simple model of student demand and state and local government support. The right side of the graph is a standard demand curve (D) showing student enrollment as a function of tuition and other student fees. Enrollment is measured in total CHEs and expressed as a percentage of current CHEs. The current tuition rate is p', and state and local government support covers C% of all costs. At this point in the analysis, we assume that the CC has only two sources of revenues, student tuition payments and state and local government support.

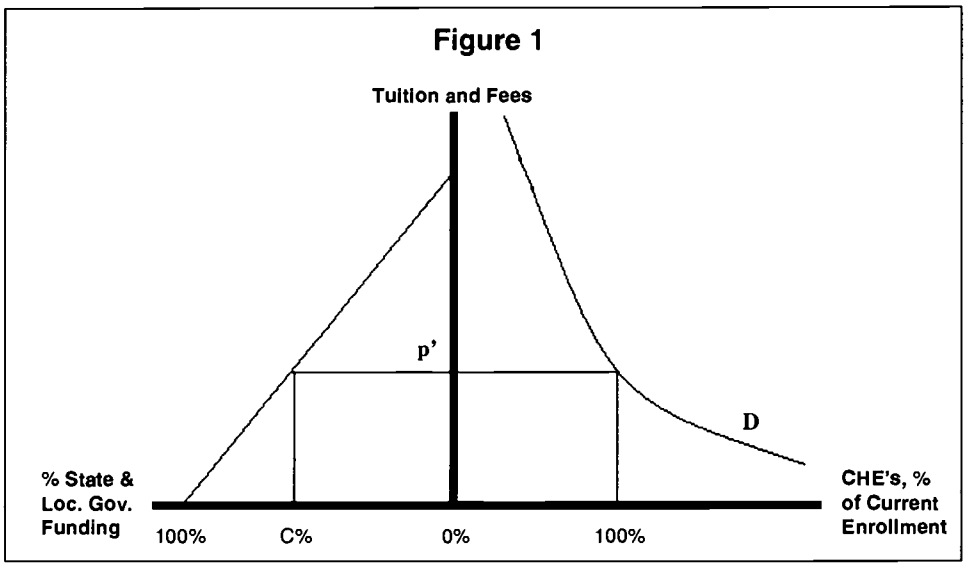
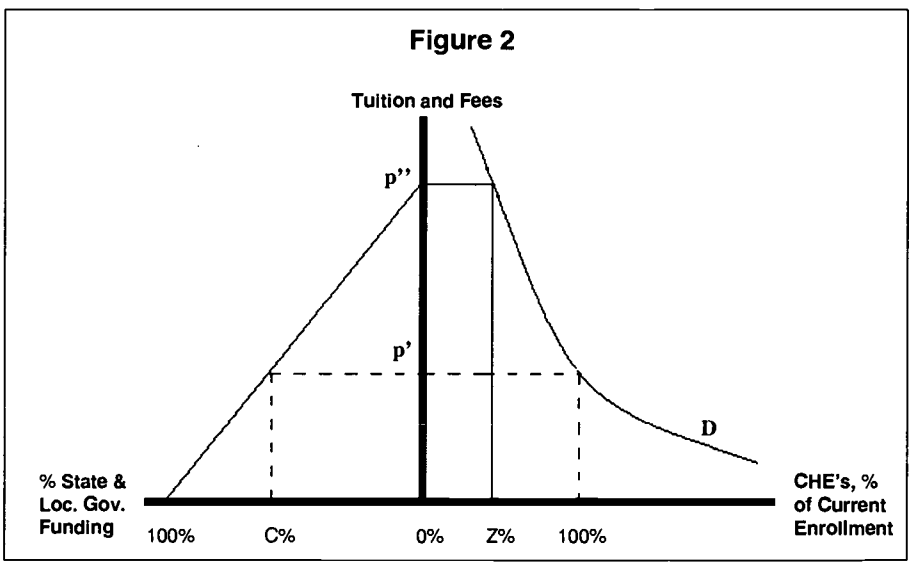


Figure 2 shows another important reference point in the model—where state and local government support is 0%, tuition rates are increased to p", and enrollment is Z% (less than 100%). The reduction in enrollment reflects price-elasticity in the students' school vs. no-school decision. Neglecting for the moment those issues concerning the CC's minimum operating scale (considered below in the section on "The CC Shutdown Point"), the implication for our investment analysis is that the benefits of state and local government support for the CC must be adjusted to net out the benefits associated with a level of enrollment at Z%; i.e., the school can provide these benefits absent state and local government support.



FROM ENROLLMENT TO BENEFITS

This appendix is mainly focused on the size of CC enrollment (i.e., the production of CHEs) and its relationship to student versus state and local government funding. However, to clarify the argument it is useful to briefly consider the role of enrollment in our larger benefit-cost model.

Let B equal the benefits attributable to state and local government support. B might be understood as applying to either our broad or narrow taxpayer perspectives. The analysis in the Main Report derives all benefits as a function of student enrollments (i.e., CHEs). For consistency with the graphical exposition elsewhere in this appendix, B will be expressed as a function of the percent of current enrollment (i.e., percent of current CHEs). Accordingly, the equation

(1) $B = B(100\%)$

reflects the total benefits generated by enrollments at their current levels, measured in our Main Report and shown in **Table 3.7** for the broad taxpayer perspective, and in **Table 3.8** for the narrow taxpayer perspective.

Consider benefits now with reference to **Figure 2**. The point where state and local government support is zero nonetheless provides for Z% (less than 100%) of the current enrollment, and benefits are symbolically indicated by:

(2) $B = B(Z\%)$

Inasmuch as the benefits in (2) occur with or without state and local government support, the benefits appropriately attributed to state and local government support is given by:

(3) $B = B(100\%) - B(Z\%)$

THE CC SHUTDOWN POINT

CC operations will cease when fixed costs can no longer be covered. The shutdown point is introduced graphically in **Figure 3** as S%. The location of point S% indicates that this particular college can operate at an even lower enrollment level than Z% (the point of zero state and local funding). At point S%, state and local government support is still zero, and the tuition rate has been raised to p'''. At tuition rates still higher than p''', the CC would not be able to attract enough students the keep the doors open, and it would shut down. In **Figure 3**, point S% illustrates the CC shutdown point but otherwise plays no role in the estimation of state and local government benefits. These remain as shown in equation (3).

Figure 3

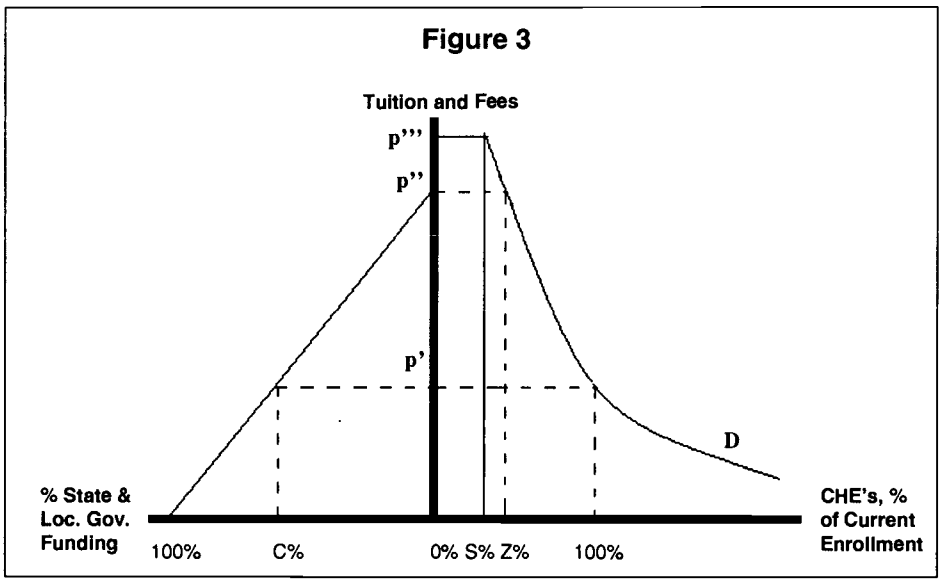
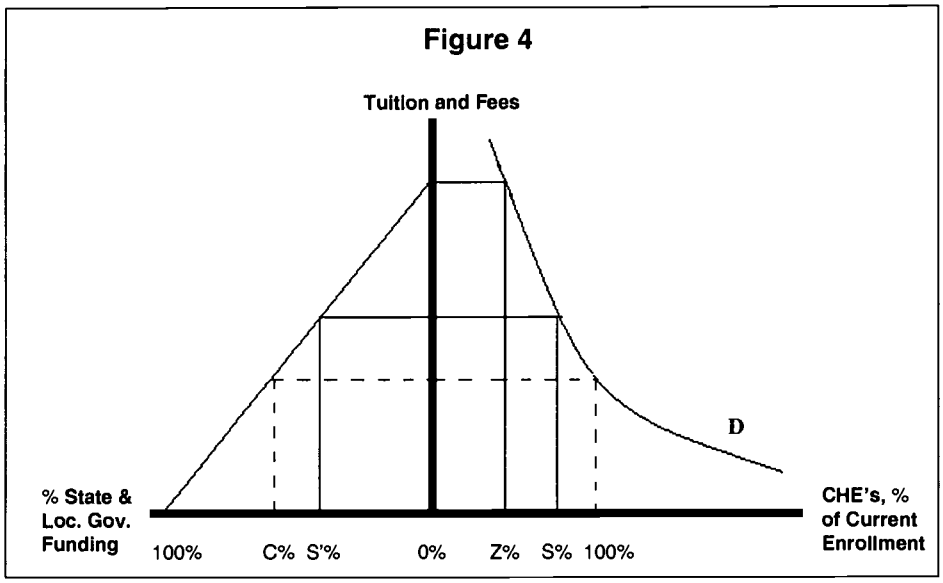


Figure 4 illustrates yet another scenario. Here the CC shutdown point occurs at an enrollment level greater than Z% (the level of zero state and local government support), meaning some minimum level of state and local government support is needed for the school to operate at all. This minimum portion of overall funding is indicated by S'% on the left side of the chart, and as before, the shutdown point is indicated by S% on the right side of chart. In this case, state and local government support is appropriately credited all the benefits generated by CC enrollment, or B=B(100%).

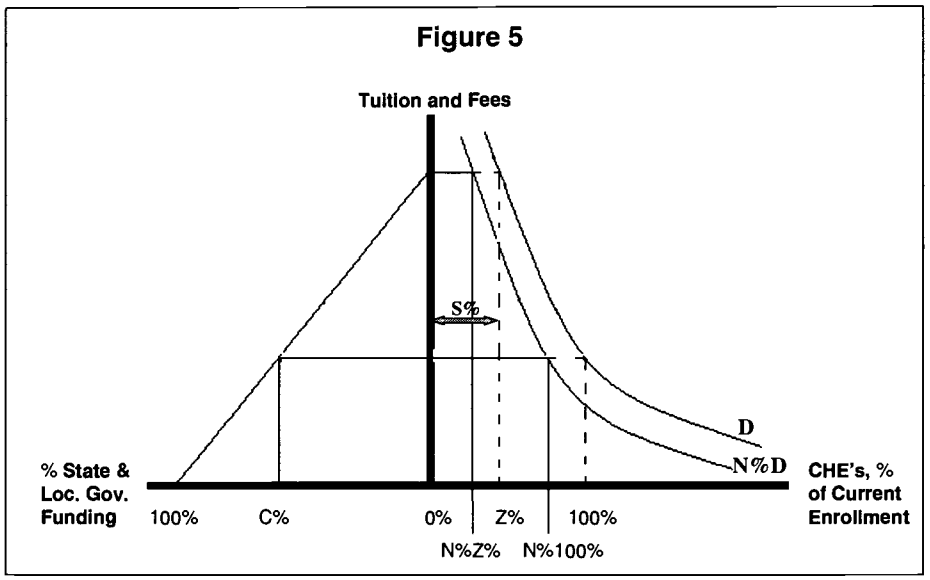


ADJUSTING FOR ALTERNATIVE EDUCATION OPPORTUNITIES

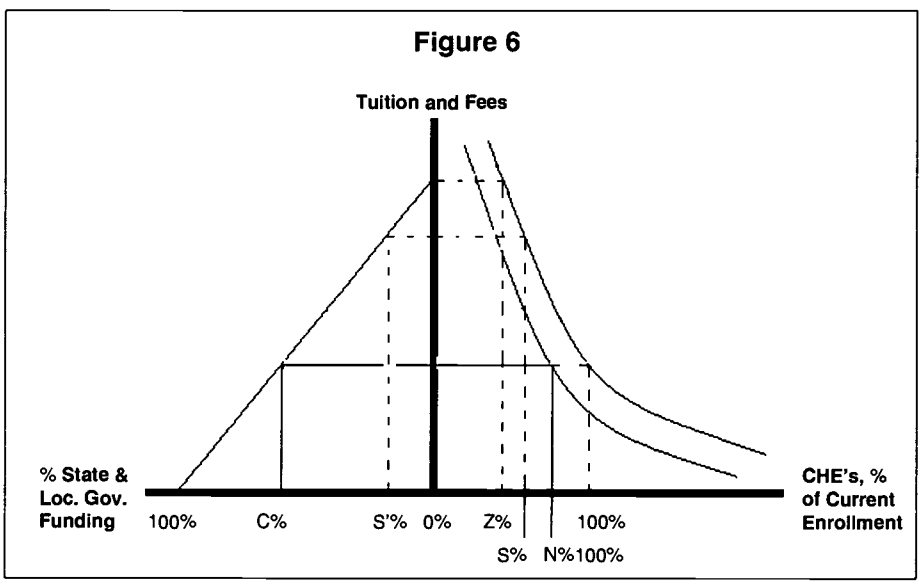
Because there may be education alternatives to the CC, we must make yet another adjustment. The question asked is: "Absent the CC, what percentage of the students would be able to obtain their education elsewhere?" The benefits associated with the CC education of these students are deducted from the overall benefit estimates.

The adjustment for alternative education is easily incorporated into our simple graphic model. For simplicity, let A% equal the percent of students with alternative education opportunities, and N% equal the percent of students without an alternative. Note that: N% + A% = 100%. **Figure 5** presents the case where the CC could operate absent state and local government support (i.e., Z% occurs at an enrollment level greater than the CC shutdown level S%). In this case, the benefits generated by enrollments absent state and local government support must be subtracted from total benefits. This case is parallel to that indicated in equation (3), and the net benefits attributable to state and local government support is given by:

(4) $B = B(N\%100\%) - B(N\%Z\%)$



Finally, **Figure 6** presents the case where the CC cannot remain open absent some minimum S'% level of state and local government support. In this case the CC is credited with all benefits generated by current enrollment, less only the percent of students with alternative education opportunities. These benefits are represented symbolically as B(N%100%).



The Socioeconomic Benefits Generated by Hawkeye Community College

State of Iowa

Volume 2: Detailed Results

by

Entry Level of Education

Gender and Ethnicity

3-Mar-2003

M. Henry Robison & Kjell A. Christophersen

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INTRODUCTION

The purpose of this volume is to present the results of the economic impact analysis in detail by gender, ethnicity and entry level of education. It is kept as a separate volume intended for limited distribution only, however, because this effort is not about gender and ethnicity differences *per se*. The study is about the overall economic impacts generated by community colleges (CCs). As such, the Main Report and the short Executive Summary both present the results without reference to gender and ethnicity differences.

We feel, nevertheless, that it is important to present *all* of the results for the sake of completeness, not just the consolidated ones, so long as the users of the detailed information remain prudent in its use and distribution. The results should not be used, for example, to further political agendas. Other studies about gender and ethnicity differences address such questions better and in greater detail. Our intent is simply to provide CC presidents with pertinent information should specific questions arise.

On the input side, gender and ethnicity are important variables that help characterize the student body profile. We collect the profile data and link it to national statistical databases which are already broken out by gender and ethnic differences. The student body profile, to a large extent, drives the magnitudes of the results which are presented in detail in this volume and in a consolidated fashion in the Main Report and the Executive Summary.

Tables 19 and **20** in this report are particularly important. They provide the data needed for computing the investment analysis results in **Tables 3.7** and **3.8** in the **Main Report**—the broad and narrow taxpayer perspectives. In **Table 19**, every other column (the higher taxes and the avoided cost columns) provides the data needed for the narrow taxpayer perspective. The remaining columns provide the data needed for the broad taxpayer perspective. **Table 20** provides the detailed calculations on student earnings that feed into the first column of **Table 19**.

DETAILED RESULTS

Table 1. Higher Annual Earnings Based on Achievements During Analysis Year, Aggregate

	Male		Female		
	White	Minority	White	Minority	Total
< HS/GED	$168,345	$0	$184,553	$0	$352,898
HS/GED equivalent	$224,003	$0	$247,680	$0	$471,682
1 year post HS or less	$4,580,533	$287,041	$3,057,907	$357,221	$8,282,702
2 years post HS or less	$3,810,304	$226,745	$2,582,982	$334,860	$6,954,890
> Associate Degree	$368,569	$19,548	$250,504	$38,025	$676,646
Total	$9,151,753	$533,333	$6,323,626	$730,105	$16,738,818

Table 2. No. of Days Reduced Absenteeism/Year

	Male		Female		Reduce
	White	Minority	White	Minority	Absent.
< HS/GED	60	0	153	0	213
HS/GED equivalent	30	0	75	0	105
1 year post HS or less	1,281	167	1,977	601	4,026
2 years post HS or less	529	66	820	278	1,693
> Associate Degree	44	5	69	28	146
Total	1,945	238	3,095	907	6,184

Table 3. Employer Savings from Reduced Absenteeism, $ per Year

	Male		Female		
	White	Minority	White	Minority	Total
< HS/GED	$5,474	$0	$7,136	$0	$12,609
HS/GED equivalent	$4,150	$0	$5,588	$0	$9,738
1 year post HS or less	$206,565	$16,603	$170,826	$41,661	$435,655
2 years post HS or less	$100,031	$7,704	$83,729	$22,791	$214,254
> Associate Degree	$9,541	$651	$8,061	$2,582	$20,834
Total	$325,760	$24,958	$275,340	$67,034	$693,091

Table 4. Fewer Smokers

	Male		Female		
	White	Minority	White	Minority	Total
< HS/GED	1	0	2	0	3
HS/GED equivalent	1	0	1	0	2
1 year post HS or less	53	1	44	2	100
2 years post HS or less	29	1	24	1	55
> Associate Degree	3	0	2	0	5
Total	87	2	74	3	165

Table 5. Medical Savings from Reduced Smoking, $ per Year

	Annual Costs, Male		Annual Costs, Female		
	White	Minority	White	Minority	Total
< HS/GED	$3,587	$0	$4,755	$0	$8,342
HS/GED equivalent	$2,731	$0	$3,656	$0	$6,387
1 year post HS or less	$158,130	$2,866	$130,662	$4,788	$296,447
2 years post HS or less	$84,746	$1,721	$72,076	$3,346	$161,890
> Associate Degree	$7,765	$155	$6,726	$399	$15,046
Total	$256,960	$4,743	$217,876	$8,533	$488,112

Table 6. Fewer Alcohol Abusers

	Male		Female		
	White	Minority	White	Minority	Total
< HS/GED	0	0	0	0	1
HS/GED equivalent	0	0	0	0	0
1 year post HS or less	11	1	8	1	20
2 years post HS or less	6	1	4	1	12
> Associate Degree	1	0	0	0	1
Total	18	2	13	2	34

Table 7. Medical Savings from Reduced Alcohol Abuse, $/Year

	Annual Costs, Male		Annual Costs, Female		
	White	Minority	White	Minority	Total
< HS/GED	$1,714	$0	$2,346	$0	$4,060
HS/GED equivalent	$1,361	$0	$1,766	$0	$3,127
1 year post HS or less	$84,181	$8,576	$61,113	$7,444	$161,314
2 years post HS or less	$50,124	$4,837	$31,987	$4,618	$91,566
> Associate Degree	$4,917	$419	$2,885	$511	$8,732
Total	$142,297	$13,832	$100,098	$12,573	$268,800

Table 8. Fewer Incarcerated, Aggregate for Student Body

	Male		Female		
	White	Minority	White	Minority	Total
< HS/GED	0.6	0.0	0.0	0.0	0.6
HS/GED equivalent	0.3	0.0	0.0	0.0	0.3
1 year post HS or less	14.2	2.8	0.2	0.7	17.9
2 years post HS or less	4.5	1.3	0.1	0.3	6.2
> Associate Degree	0.3	0.1	0.0	0.0	0.4
Total	20	4	0	1	25

Table 9. Savings from Reduced Incarceration, $ per Year

	Annual Costs, Male		Annual Costs, Female		
	White	Minority	White	Minority	Total
< HS/GED	$6,859	$0	$150	$0	$7,009
HS/GED equivalent	$4,204	$0	$92	$0	$4,296
1 year post HS or less	$176,694	$34,933	$2,351	$8,961	$222,939
2 years post HS or less	$55,777	$16,403	$743	$4,356	$77,280
> Associate Degree	$3,575	$1,257	$48	$411	$5,291
Total	$247,110	$52,594	$3,383	$13,728	$316,815

Table 10. Crime Victim Savings, Aggregate for Student Body, $/Year

	Annual Costs, Male		Annual Costs, Female		
	White	Minority	White	Minority	Total
< HS/GED	$7,554	$0	$165	$0	$7,719
HS/GED equivalent	$4,630	$0	$101	$0	$4,731
1 year post HS or less	$194,602	$38,474	$2,589	$9,869	$245,534
2 years post HS or less	$61,430	$18,066	$818	$4,798	$85,112
> Associate Degree	$3,937	$1,384	$53	$452	$5,827
Total	$272,154	$57,924	$3,726	$15,119	$348,924

Table 11. Productivity Gained (Fewer Incarcerated), $ per Year

	Annual Costs, Male		Annual Costs, Female		
	White	Minority	White	Minority	Total
< HS/GED	$2,445	$0	$28	$0	$2,473
HS/GED equivalent	$1,975	$0	$23	$0	$1,998
1 year post HS or less	$90,993	$11,111	$647	$1,978	$104,729
2 years post HS or less	$33,329	$6,054	$239	$1,125	$40,747
> Associate Degree	$2,430	$528	$18	$121	$3,097
Total	$131,173	$17,692	$954	$3,225	$153,044

Table 12. Fewer People on Welfare

	Male		Female		
	White	Minority	White	Minority	Total
< HS/GED	0.5	0.0	3.2	0.0	3.7
HS/GED equivalent	0.3	0.0	2.0	0.0	2.4
1 year post HS or less	15.0	3.4	55.7	16.5	90.7
2 years post HS or less	5.3	1.2	19.7	6.5	32.7
> Associate Degree	0.4	0.1	1.4	0.5	2.3
Total	22	5	82	23	132

Table 13. Community Welfare Savings, $ per Year

	Annual Costs, Male		Annual Costs, Female		
	White	Minority	White	Minority	Total
< HS/GED	$1,879	$0	$11,447	$0	$13,327
HS/GED equivalent	$1,206	$0	$7,348	$0	$8,554
1 year post HS or less	$54,135	$12,334	$200,872	$59,345	$326,687
2 years post HS or less	$19,090	$4,175	$71,030	$23,399	$117,694
> Associate Degree	$1,321	$255	$4,934	$1,915	$8,426
Total	$77,632	$16,765	$295,632	$84,659	$474,687

Table 14. Fewer People on Unemployment

	Male		Female		
	White	Minority	White	Minority	Total
< HS/GED	1	0	2	0	2
HS/GED equivalent	1	0	2	0	2
1 year post HS or less	5	2	7	4	17
2 years post HS or less	2	1	3	2	7
> Associate Degree	0	0	0	0	1
Total	8	2	13	5	29

Table 15. Unemployment Savings, $ per Year

	Annual Costs, Male		Annual Costs, Female		
	White	Minority	White	Minority	Total
< HS/GED	$5,117	$0	$12,705	$0	$17,822
HS/GED equivalent	$4,577	$0	$11,366	$0	$15,943
1 year post HS or less	$35,335	$12,703	$54,301	$26,855	$129,195
2 years post HS or less	$12,937	$4,506	$19,690	$11,562	$48,695
> Associate Degree	$1,633	$509	$2,486	$1,706	$6,334
Total	$59,599	$17,718	$100,549	$40,122	$217,989

Table 16. Summary of Annual Impacts, $ per Year

	Male		Female		
	White	Minority	White	Minority	Total
Higher earnings	$9,151,753	$533,333	$6,323,626	$730,105	$16,738,818
Absenteeism Savings	$325,760	$24,958	$275,340	$67,034	$693,091
Medical Cost Savings	$399,257	$18,575	$317,973	$21,107	$756,912
Incarceration Savings	$247,110	$52,594	$3,383	$13,728	$316,815
Crime Victim Savings	$272,154	$57,924	$3,726	$15,119	$348,924
Add Prod. (fewer incarc.)	$131,173	$17,692	$954	$3,225	$153,044
Welfare Savings	$77,632	$16,765	$295,632	$84,659	$474,687
Unemployment Savings	$59,599	$17,718	$100,549	$40,122	$217,989
Total	$10,664,437	$739,559	$7,321,184	$975,100	$19,700,280

Table 17. Annual Impacts per Credit Hour Equivalent, $ per Year

	Male		Female		Weighted
	White	Minority	White	Minority	Average
Higher earnings	$ 167	$ 101	$ 96	$ 74	$ 120
Absenteeism Savings	$ 6	$ 5	$ 4	$ 7	$ 6
Medical Cost Savings	$ 7	$ 4	$ 5	$ 2	$ 5
Incarceration Savings	$ 5	$ 10	$ 0	$ 1	$ 8
Crime Victim Savings	$ 5	$ 11	$ 0	$ 2	$ 8
Add Prod. (fewer incarc.)	$ 2	$ 3	$ 0	$ 0	$ 3
Welfare Savings	$ 1	$ 3	$ 4	$ 9	$ 6
Unemployment Savings	$ 1	$ 3	$ 2	$ 4	$ 3
Total	$ 194	$ 140	$ 111	$ 99	$ 159

Table 18. Annual Impacts per Student, $ per Year

	Male		Female		Weighted
	White	Minority	White	Minority	Average
Higher earnings	$ 869	$ 525	$ 500	$ 386	$ 627
Absenteeism Savings	$ 31	$ 25	$ 22	$ 35	$ 29
Medical Cost Savings	$ 38	$ 18	$ 25	$ 11	$ 27
Incarceration Savings	$ 23	$ 52	$ 0	$ 7	$ 40
Crime Victim Savings	$ 26	$ 57	$ 0	$ 8	$ 44
Add Prod. (fewer incarc.)	$ 12	$ 17	$ 0	$ 2	$ 15
Welfare Savings	$ 7	$ 16	$ 23	$ 45	$ 31
Unemployment Savings	$ 6	$ 17	$ 8	$ 21	$ 16
Total	$ 1,013	$ 728	$ 579	$ 515	$ 829

Table 19. Cumulative Impact Over Time ($'000), Details for Both Taxpayer Perspectives

			Health				Crime						Welfare / Unemployment			
Year	Earnings Net	Added Taxes	Reduced Absent.	Avoided Cost	Medical Saving	Avoided Cost	Incarc-eration	Avoided Cost	Victims	Avoided Cost	Product. Gained	Avoided Cost	Reduced Welfare	Avoided Cost	Reduced Unempl.	Avoided Cost
1	$31,003	$5,108	$693	$94	$757	$45	$317	$253	$349	$0	$153	$25	$475	$76	$218	$0
2	$2,845	$469	$692	$94	$753	$45	$315	$252	$347	$0	$153	$25	$472	$76	$216	$0
3	$4,018	$662	$690	$93	$749	$45	$314	$251	$345	$0	$152	$25	$470	$75	$215	$0
4	$4,504	$742	$689	$93	$745	$45	$312	$250	$344	$0	$152	$25	$467	$75	$213	$0
5	$5,022	$828	$687	$93	$741	$44	$310	$248	$342	$0	$152	$25	$465	$74	$212	$0
6	$5,573	$918	$685	$93	$737	$44	$309	$247	$340	$0	$151	$25	$462	$74	$210	$0
7	$6,156	$1,014	$684	$93	$734	$44	$307	$246	$338	$0	$151	$25	$460	$74	$209	$0
8	$6,769	$1,115	$682	$92	$730	$44	$305	$244	$336	$0	$151	$25	$458	$73	$207	$0
9	$7,412	$1,221	$681	$92	$726	$44	$304	$243	$335	$0	$150	$25	$455	$73	$206	$0
10	$8,083	$1,332	$679	$92	$722	$43	$302	$242	$333	$0	$150	$25	$453	$72	$204	$0
11	$8,779	$1,447	$678	$92	$719	$43	$301	$241	$331	$0	$150	$25	$451	$72	$203	$0
12	$9,499	$1,565	$676	$92	$715	$43	$299	$239	$330	$0	$149	$25	$448	$72	$201	$0
13	$10,239	$1,687	$675	$91	$711	$43	$298	$238	$328	$0	$149	$25	$446	$71	$200	$0
14	$10,997	$1,812	$673	$91	$707	$42	$296	$237	$326	$0	$149	$25	$444	$71	$199	$0
15	$11,768	$1,939	$672	$91	$704	$42	$295	$236	$324	$0	$148	$24	$441	$71	$197	$0
16	$12,550	$2,068	$671	$91	$700	$42	$293	$234	$323	$0	$148	$24	$439	$70	$196	$0
17	$13,337	$2,198	$669	$91	$696	$42	$292	$233	$321	$0	$148	$24	$437	$70	$194	$0
18	$14,127	$2,328	$668	$90	$693	$42	$290	$232	$319	$0	$147	$24	$434	$70	$193	$0
19	$14,913	$2,457	$666	$90	$689	$41	$288	$231	$318	$0	$147	$24	$432	$69	$192	$0
20	$15,693	$2,586	$665	$90	$686	$41	$287	$230	$316	$0	$147	$24	$430	$69	$190	$0
21	$16,460	$2,712	$663	$90	$682	$41	$286	$228	$314	$0	$146	$24	$428	$68	$189	$0
22	$17,210	$2,836	$662	$90	$679	$41	$284	$227	$313	$0	$146	$24	$426	$68	$187	$0
23	$17,938	$2,956	$660	$89	$675	$41	$283	$226	$311	$0	$146	$24	$423	$68	$186	$0
24	$18,639	$3,071	$659	$89	$672	$40	$281	$225	$310	$0	$145	$24	$421	$67	$185	$0
25	$19,309	$3,182	$657	$89	$668	$40	$280	$224	$308	$0	$145	$24	$419	$67	$183	$0
26	$19,943	$3,286	$656	$89	$665	$40	$278	$223	$306	$0	$145	$24	$417	$67	$182	$0
27	$20,535	$3,384	$654	$89	$661	$40	$277	$221	$305	$0	$145	$24	$415	$66	$181	$0
28	$21,083	$3,474	$653	$88	$658	$39	$275	$220	$303	$0	$144	$24	$412	$66	$180	$0
29	$21,582	$3,556	$652	$88	$654	$39	$274	$219	$302	$0	$144	$24	$410	$66	$178	$0
30	$22,028	$3,630	$650	$88	$651	$39	$272	$218	$300	$0	$144	$24	$408	$65	$177	$0
31	$22,419	$3,694	$649	$88	$648	$39	$271	$217	$298	$0	$143	$24	$406	$65	$176	$0
32	$22,752	$3,749	$647	$88	$644	$39	$270	$216	$297	$0	$143	$24	$404	$65	$174	$0
33	$23,023	$3,794	$646	$87	$641	$38	$268	$215	$295	$0	$143	$23	$402	$64	$173	$0
34	$23,232	$3,828	$644	$87	$637	$38	$267	$213	$294	$0	$142	$23	$400	$64	$172	$0
35	$23,377	$3,852	$643	$87	$634	$38	$265	$212	$292	$0	$142	$23	$398	$64	$171	$0
36	$23,458	$3,865	$642	$87	$631	$38	$264	$211	$291	$0	$142	$23	$396	$63	$169	$0
37	$23,473	$3,868	$640	$87	$628	$38	$263	$210	$289	$0	$141	$23	$394	$63	$168	$0
38	$23,423	$3,859	$639	$86	$624	$37	$261	$209	$288	$0	$141	$23	$392	$63	$167	$0
39	$23,309	$3,841	$637	$86	$621	$37	$260	$208	$286	$0	$141	$23	$390	$62	$166	$0
PV	$258,486	$42,592	$13,158	$1,780	$13,788	$827	$5,771	$4,617	$6,356	$0	$2,906	$479	$8,647	$1,383	$3,865	$0

Table 20. Earnings Calculations, Taxpayer Perspectives ($'000)

Year	Gross Student Earnings	Net of Attrition	Direct Earnings Net	Indirect Student Earnings	Net Total Student Earnings	Total CC Earnings	Total Earnings Net
1	$3,479	$3,479	$1,148	$1,260	$2,408	$28,594	$31,003
2	$4,116	$4,109	$1,356	$1,489	$2,845	$0	$2,845
3	$5,824	$5,804	$1,915	$2,103	$4,018	$0	$4,018
4	$6,539	$6,506	$2,147	$2,357	$4,504	$0	$4,504
5	$7,304	$7,254	$2,394	$2,628	$5,022	$0	$5,022
6	$8,119	$8,050	$2,657	$2,917	$5,573	$0	$5,573
7	$8,983	$8,892	$2,934	$3,221	$6,156	$0	$6,156
8	$9,896	$9,778	$3,227	$3,543	$6,769	$0	$6,769
9	$10,854	$10,707	$3,533	$3,879	$7,412	$0	$7,412
10	$11,857	$11,676	$3,853	$4,230	$8,083	$0	$8,083
11	$12,900	$12,682	$4,185	$4,595	$8,779	$0	$8,779
12	$13,982	$13,721	$4,528	$4,971	$9,499	$0	$9,499
13	$15,097	$14,790	$4,881	$5,359	$10,239	$0	$10,239
14	$16,242	$15,885	$5,242	$5,755	$10,997	$0	$10,997
15	$17,411	$16,999	$5,610	$6,159	$11,768	$0	$11,768
16	$18,599	$18,128	$5,982	$6,568	$12,550	$0	$12,550
17	$19,800	$19,265	$6,358	$6,980	$13,337	$0	$13,337
18	$21,007	$20,406	$6,734	$7,393	$14,127	$0	$14,127
19	$22,215	$21,542	$7,109	$7,805	$14,913	$0	$14,913
20	$23,416	$22,668	$7,480	$8,212	$15,693	$0	$15,693
21	$24,603	$23,776	$7,846	$8,614	$16,460	$0	$16,460
22	$25,768	$24,859	$8,204	$9,006	$17,210	$0	$17,210
23	$26,904	$25,911	$8,551	$9,387	$17,938	$0	$17,938
24	$28,004	$26,924	$8,885	$9,754	$18,639	$0	$18,639
25	$29,060	$27,891	$9,204	$10,105	$19,309	$0	$19,309
26	$30,064	$28,806	$9,506	$10,436	$19,943	$0	$19,943
27	$31,011	$29,662	$9,789	$10,747	$20,535	$0	$20,535
28	$31,892	$30,454	$10,050	$11,033	$21,083	$0	$21,083
29	$32,703	$31,174	$10,288	$11,294	$21,582	$0	$21,582
30	$33,437	$31,819	$10,500	$11,528	$22,028	$0	$22,028
31	$34,088	$32,384	$10,687	$11,733	$22,419	$0	$22,419
32	$34,653	$32,864	$10,845	$11,907	$22,752	$0	$22,752
33	$35,127	$33,256	$10,975	$12,049	$23,023	$0	$23,023
34	$35,506	$33,558	$11,074	$12,158	$23,232	$0	$23,232
35	$35,789	$33,768	$11,143	$12,234	$23,377	$0	$23,377
36	$35,973	$33,884	$11,182	$12,276	$23,458	$0	$23,458
37	$36,058	$33,905	$11,189	$12,284	$23,473	$0	$23,473
38	$36,043	$33,833	$11,165	$12,258	$23,423	$0	$23,423
39	$35,929	$33,669	$11,111	$12,198	$23,309	$0	$23,309

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Organization/Address: Hawkeye Community College 1501 East Orange Road Waterloo, IA 50704	Telephone: 319-296-4237 FAX: 319-296-9140
	E-Mail Address: rchittenden@hawkeyecollege.edu Date: 10/13/03

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