

## Broad & Narrow Perspectives

State and local taxpayers earn 9.8% rate of return on their investment in Maryland's Community Colleges.

The verdict is in: Maryland's Community Colleges add more money to the state treasury than they take out. Not only do the colleges pull their own weight, but they also effectively subsidize other sectors funded by the taxpayers. Absent the colleges, taxes would actually have to be raised in order to maintain services in all other sectors at their current levels. The return on investment is considered from two taxpayer perspectives: broad and narrow.

### Broad Investment Perspective

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

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

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

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

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### Narrow Investment Perspective

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

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

But unlike most government endeavors, college funding generates strong results from both broad and narrow perspectives. Economists generally assume a 4% discount rate in analyzing government investments, assuming that governments can obtain unsecured loans at a rate of 4% or receive a 4% return on any excess funds, if they were invested. *Since the narrow rate of return for Maryland's Community Colleges is 9.8%, greater than 4%, we conclude that the state government makes money on the investment.* By funding the colleges, therefore, other recipients of state funding are actually subsidized through the revenues generated by the colleges.

### Narrow Investment Results

