

Social & Taxpayer Perspectives

State and local taxpayers earn a 6.4% rate of return on their investment in Washington's Community and Technical Colleges.

Washington's Community and Technical 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 perspectives: social and taxpayer.

Social Perspective

The social perspective adds up all benefits attributable to Washington's community and technical colleges, regardless of recipient, and compares 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 is 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 social perspective counts all benefits, not just those that accrue back to state or local government.

Benefits generated by Washington's community and technical colleges also accrue to different groups. Students benefit from higher incomes, employers benefit from increased worker productivity, and the public at large benefits from an expanded economic base. The public also enjoys a variety of external social benefits, such as reduced crime, lower welfare and unemployment, improved health, and less absenteeism from work. All of these are tallied up and compared to the investment made by state and local governments, or the taxpayers. A social 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 Washington's community and technical colleges is 18.7. In other words, the cumulative added value attached to each dollar invested will have a present value of \$18.70 by the end of the students' career.

Taxpayer Perspective

The taxpayer investment perspective counts only benefits that can be entered into the books of state and local governments. For example, educated workers earn more

and thus pay more taxes. Furthermore, because state and local governments bear part of the cost of crime, their budgets benefit from education's crime-reducing effect, and the same is true for other benefits of an educated populace. The bottom line: state and local governments receive returns from their support of Washington's community and technical colleges in the form of increased tax revenue and savings associated with avoided social costs.

Worthwhile public projects often generate negative taxpayer 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 taxpayer perspective, returns are negative, though the park is justified by the benefits tracked under the social perspective.

But unlike most government endeavors, funding for Washington's community and technical colleges generates strong results from *both* the social and taxpayer perspectives. Economists generally assume a 3% discount rate in analyzing government investments, assuming that governments can obtain unsecured loans at a rate of 3% or receive a 3% return on any excess funds, if they were invested. *Since the taxpayer rate of return of 6.4% is greater than 3%, state and local governments actually make money on the investment.* By funding the colleges, therefore, other recipients of state and local funding are actually subsidized through the revenues generated by the colleges.

Comparative Rates of Return

