

COMMUNITY COLLEGES

SAN DIEGO & IMPERIAL COUNTIES

CAREER EDUCATION





MAIN REPORT

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The Economic Value of Career and Technical Education at San Diego & Imperial Counties Community Colleges

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Executive summary

This report assesses the impact of Career and Technical Education¹ (CTE) at San Diego & Imperial Counties Community Colleges² (SDICCC) on the county economy and the benefits generated by the colleges' CTE for students, taxpayers, and society. The results of this study show that SDICCC's CTE creates positive net impacts on the county economy and generates a positive return on investment for students, taxpayers, and society.

¹ Career and Technical Education (CTE) is defined at the course level and includes courses coded A-C (Apprenticeship, Advanced Occupational, and Clearly Occupational).

² San Diego & Imperial Counties Community Colleges consist of San Diego City College, San Diego College of Continuing Education, Cuyamaca College, Grossmont College, San Diego Mesa College, MiraCosta College, San Diego Miramar College, Palomar College, and Southwestern College. Though also part of SDICCC, Imperial Valley College is not included in this analysis.



ECONOMIC IMPACT ANALYSIS



During the analysis year, SDICCC spent \$298.2 million on payroll and benefits for 4,399 full-time and part-time CTE employees³ and spent another \$160 million on goods and services to carry out its day-to-day operations.⁴ This initial round of spending creates more spending across other businesses throughout the county economy, resulting in the commonly referred to multiplier effects. This analysis estimates the net economic impact of SDICCC's CTE that directly takes into account the fact that state and local dollars spent on SDICCC's CTE could have been spent elsewhere in the county if not directed towards the colleges' CTE. This spending would have created impacts regardless. We account for this by estimating the impacts that would have been created from the alternative spending and subtracting the alternative impacts from the spending impacts of SDICCC's CTE.

This analysis shows that in fiscal year (FY) 2019-20, operations, construction, and student spending of the colleges' CTE, together with the enhanced productivity of their alumni, generated **\$2.8 billion** in added income for the San Diego County economy. The additional income of \$2.8 billion created by SDICCC's CTE is equal to approximately **1.1%** of the total gross regional product (GRP) of San Diego County. For perspective, this impact from the colleges' CTE is as large as the entire Transportation & Warehousing

The additional income of **\$2.8 billion** created by SDICCC's CTE is equal to approximately **1.1%** of the total gross regional product of San Diego County.

³ Due to data limitations, the number of faculty and staff was estimated using a proportion based on CTE headcount.

⁴ Due to data limitations, revenue and expenditure data were estimated using a proportion based on CTE headcount.

industry in the county. The impact of \$2.8 billion is equivalent to supporting **33,145 jobs**. For further perspective, this means that **one out of every 61 jobs** in San Diego County is supported by the activities of the colleges' CTE and its students. These economic impacts break down as follows:

Operations spending impact



Payroll and benefits to support the colleges' CTE day-to-day operations amounted to \$298.2 million. The colleges' CTE non-pay expenditures amounted to \$160 million. The net impact of operations spending by the colleges' CTE in San Diego County during the analysis year was approximately **\$416.6 million** in added income, which is equivalent to supporting **5,084 jobs**.

Construction spending impact



SDICCC's CTE invests in construction each year to maintain facilities, create additional capacities, and meet growing educational demands. While the amount varies from year to year, these quick infusions of income and jobs have a substantial impact on the county economy. In FY 2019-20, SDICCC's CTE construction spending generated **\$2.4 million** in added income, which is equivalent to supporting **26 jobs**.

Student spending impact



Around 8% of CTE students enrolled in SDICCC's CTE originated from outside the county. Some of these students relocated to San Diego County to attend the colleges. In addition, some students, referred to as retained students, are residents of San Diego County who would have left the county if not for the existence of SDICCC's CTE. The money that these students spent toward living expenses in San Diego County is attributable to the colleges' CTE.

The expenditures of relocated and retained CTE students in the county during the analysis year added approximately **\$179.8 million** in income for the San Diego County economy, which is equivalent to supporting **2,793 jobs**.

Alumni impact



Over the years, CTE students gained new skills, making them more productive workers, by studying at the colleges. Today, thousands of these former CTE students are employed in San Diego County.

The accumulated impact of former CTE students currently employed in the San Diego County workforce amounted to **\$2.2 billion** in added income for the San Diego County economy, which is equivalent to supporting **25,242 jobs**.

Important note

When reviewing the impacts estimated in this study, it is important to note that the study reports impact in the form of added income rather than sales. Sales includes all of the intermediary costs associated with producing goods and services, as well as money that leaks out of the county as it is spent at out-of-county businesses. Income, on the other hand, is a net measure that excludes these intermediary costs and leakages and is synonymous with gross regional product (GRP) and value added. For this reason, it is a more meaningful measure of new economic activity than sales.



Investment analysis is the practice of comparing the costs and benefits of an investment to determine whether or not it is profitable. This study considers SDICCC's CTE as an investment from the perspectives of students, taxpayers, and society.

Student perspective



CTE students invest their own money and time in their education to pay for tuition, books, and supplies. Many take out student loans to attend the colleges, which they will pay back over time. While some CTE students were employed while attending the colleges, students overall forewent earnings that they would have generated had they been in full employment instead of learning. Summing these direct outlays, opportunity costs, and future student loan costs yields a total of **\$448.6 million** in present value student costs.

In return, CTE students will receive a present value of **\$2.5 billion** in increased earnings over their working lives. This translates to a return of **\$5.60** in higher future earnings for every dollar that CTE students invest in their education at the colleges. The corresponding annual rate of return is **21.2%**.

Taxpayer perspective



Taxpayers provided **\$378 million** of state and local funding to SDICCC's CTE in FY 2019-20. In return, taxpayers will receive an estimated present value of **\$906.1 million** in added tax revenue stemming

from the CTE students' higher lifetime earnings and the increased output of businesses. Savings to the public sector add another estimated **\$98 million** in benefits due to a reduced demand for government-funded social services in California. For every tax dollar spent educating CTE students attending the colleges, taxpayers will receive an average of **\$2.70** in return over the course of the CTE students' working lives. In other words, taxpayers enjoy an annual rate of return of **7.0%**.

Social perspective



People in California invested **\$884.1 million** in SDICCC's CTE in FY 2019-20. This includes the colleges' CTE expenditures, student expenses,

and student opportunity costs. In return, the state of California will receive an estimated present value of **\$12.1 billion** in added state revenue over the course of the CTE students' working lives. California will also benefit from an estimated **\$152 million** in present value social savings related to reduced crime, lower welfare and unemployment, and increased health and well-being across the state. For every dollar society invests in SDICCC's CTE, an average of **\$13.80** in benefits will accrue to California over the course of the CTE students' careers.

For every tax dollar spent educating CTE students attending SDICCC, taxpayers will receive an average of **\$2.70** in return over the course of the students' working lives.

ACKNOWLEDGMENTS

Emsi Burning Glass gratefully acknowledges the excellent support of the staff at San Diego & Imperial Counties Community Colleges (SDICCC) in making this study possible. Special thanks go to Molly Ash, Program Manager, Regional Consortium; Danene Brown, Chair, Regional Consortium; Dr. Julianna Barnes, President, Cuyamaca College; Lynn Ceresino Neault, Ed.D., Chancellor, Grossmont-Cuyamaca Community College District; Dr. Sunny Cooke, President, MiraCosta College; Dr. Star Rivera-Lacey, Superintendent/President, Palomar College; Dr. Ricky Shabazz, President, San Diego City College; Kay Faulconer Boger, Ed.D., Interim President, San Diego College of Continuing Education; Dr. Pamela T. Luster, President, San Diego Mesa College; Dr. Wesley Lundburg, President, San Diego Miramar College; and Dr. Mark Sanchez, President, Southwestern College who approved the study, and to individual institutional research teams at the colleges and districts who collected much of the data and information requested. Any errors in the report are the responsibility of Emsi Burning Glass and not of any of the above-mentioned individuals.

INTRODUCTION

San Diego & Imperial Counties Community Colleges (SDICCC), established in 1914, have today grown to serve 77,251 credit and 6,892 non-credit students. SDICCC is led by Molly Ash, Program Manager, Regional Consortium; Danene Brown, Chair, Regional Consortium; and by college and district presidents, Dr. Julianna Barnes, President, Cuyamaca College; Lynn Ceresino Neault, Ed.D., Chancellor, Grossmont-Cuyamaca Community College District; Dr. Sunny Cooke, President, MiraCosta College; Dr. Star Rivera-Lacey, Superintendent/President, Palomar College; Dr. Ricky Shabazz, President, San Diego City College; Kay Faulconer Boger, Ed.D., Interim President, San Diego College of Continuing Education; Dr. Pamela T. Luster, President, San Diego Mesa College; Dr. Wesley Lundburg, President, San Diego Miramar College; and Dr. Mark Sanchez, President, Southwestern College. The colleges' service region, for the purpose of this report, is San Diego County.

While SDICCC's CTE affects the county in a variety of ways, many of them difficult to quantify, this study considers the colleges' CTE economic benefits. The colleges' CTE naturally helps students achieve their individual potential and develops the knowledge, skills, and abilities they need to have fulfilling and prosperous careers. However, SDICCC's CTE impacts San Diego County beyond influencing the lives of students. The colleges' CTE program offerings supply employers with workers to make their businesses more productive. The colleges' CTE, its day-to-day operations, its construction activities, and the expenditures of CTE students support the county economy through the output and employment generated by county vendors. The benefits created by the colleges' CTE extend as far as the state treasury in terms of the increased tax receipts and decreased public sector costs generated by students across the state.

This report assesses the impact of SDICCC's CTE as a whole on the county economy and the benefits generated by the colleges' CTE for students, taxpayers, and society. The approach is twofold. We begin with an economic impact analysis of the colleges' CTE on the San Diego County economy. To derive results, we rely on a specialized Multi-Regional Social Accounting Matrix (MR-SAM) model



SDICCC's CTE impacts San Diego County beyond influencing the lives of students.

to calculate the added income created in the San Diego County economy as a result of increased consumer spending and the added knowledge, skills, and abilities of students. Results of the economic impact analysis are broken out according to the following impacts: 1) impact of the colleges' CTE day-to-day operations, 2) impact of the colleges' CTE construction spending, 3) impact of CTE student spending, and 4) impact of CTE alumni who are still employed in the San Diego County workforce.

The second component of the study measures the benefits generated by SDICCC's CTE for the following stakeholder groups: students, taxpayers, and society. For students, we perform an investment analysis to determine how the money spent by students on their education performs as an investment over time. The CTE students' investment in this case consists of their out-of-pocket expenses, the cost of interest incurred on student loans, and the opportunity cost of attending the colleges as opposed to working. In return for these investments, students receive a lifetime of higher earnings. For taxpayers, the study measures the benefits to state taxpayers in the form of increased tax revenues and public sector savings stemming from a reduced demand for social services. Finally, for society, the study assesses how the CTE students' higher earnings and improved quality of life create benefits throughout California as a whole.

The study uses a wide array of data that are based on several sources, including the FY 2019-20 academic and financial reports from the colleges; industry and employment data from the Bureau of Labor Statistics and Census Bureau; outputs of Emsi Burning Glass's impact model and MR-SAM model; and a variety of published materials relating education to social behavior.



CHAPTER 1:

Profile of San Diego & Imperial Counties Community Colleges and the economy





HIGHER EDUCATION—particularly affordable, accessible Career and Technical Education (CTE) offered by public colleges—is a valuable economic driver for communities and regions. In San Diego County, higher education is offered by 10 public colleges that are part of San Diego & Imperial Counties Community Colleges.⁵ These institutions provide exceptional CTE opportunities for students through a wide range of relevant and well-regarded programs designed for undergraduate students, business professionals, and lifelong learners. In FY 2019-20, SDICCC’s CTE served more 84,000 students.

SDICCC’s CTE offers students a vast array of educational options, including hundreds of career-oriented two-year degrees and short-term certificates in disciplines such as automotive technology, business management, carpentry, child development, computer infrastructure and support, culinary arts, graphic design, information technology, healthcare, horticulture, and more. SDICCC’s CTE employs exceptional faculty and provides a multitude of opportunities for students to explore interests, build connections, and cultivate skills.

Designed to produce highly qualified students equipped with in-demand skills, the colleges’ CTE offerings are vital assets to county and regional employers. Specifically, SDICCC’s CTE equips students with marketable skills and adds highly-trained human capital to the county workforce. SDICCC’s CTE focuses on addressing industry demands and provides students access to develop expertise and launch rewarding careers, stimulating economic growth and community development in San Diego County and beyond. Further, SDICCC’s CTE provides short-term courses in areas of public interest that are open to the community.

SDICCC includes the following institutions:

- Cuyamaca College
- Grossmont College
- Imperial Valley College
- MiraCosta College
- Palomar College
- San Diego City College
- San Diego College of Continuing Education
- San Diego Mesa College
- San Diego Miramar College
- Southwestern College

SDICCC’s CTE provides students access to develop sought-after skills, stimulating economic growth and community development in San Diego County and beyond.

⁵ Imperial Valley College is part of SDICCC; however, it is not included in this analysis.

SDICCC'S EMPLOYEE AND FINANCE DATA



The study uses two general types of information: 1) data collected from the colleges and 2) county economic data obtained from various public sources and Emsi Burning Glass's proprietary data modeling tools.⁶ This chapter presents the basic underlying information from the colleges used in this analysis and provides an overview of the San Diego County economy.

Employee data

Data provided by the colleges include information on CTE faculty and staff by place of work and by place of residence. These data appear in Table 1.1. As shown, SDICCC's CTE employed 3,019 full-time and 1,380 part-time faculty and staff in FY 2019-20 (including CTE student workers).⁷ Of these, all worked in the county and 94% lived in the county. These data are used to isolate the portion of the CTE employees' payroll and household expenses that remains in the county economy.

Revenues

Figure 1.1 shows SDICCC's annual CTE revenues by funding source—a total of \$496.6 million in FY 2019-20. As indicated, tuition and fees comprised 6% of total revenue, and revenues from local, state, and federal government sources comprised another 90%. All other revenue (i.e., auxiliary revenue, sales and services, interest, and donations) comprised the remaining 4%. These data are critical in identifying the annual costs of educating the student body from the perspectives of CTE students, taxpayers, and society.

Expenditures

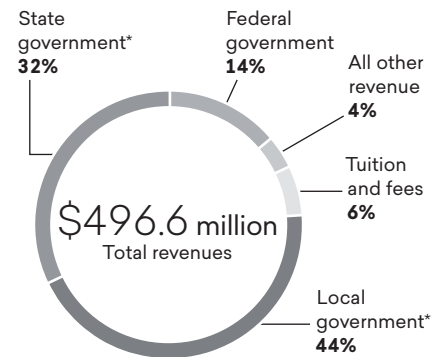
Figure 1.2 displays SDICCC's CTE expense data. The combined CTE payroll at the colleges, including student salaries and wages, amounted to \$298.2 million. This was equal to 56% of the colleges' CTE total expenses for FY 2019-20. Other CTE expenditures, including operation and maintenance of plant, construction, depreciation, and purchases of supplies and services, made up \$237.6 million. When we calculate the impact of these expenditures in Chapter 2, we exclude expenses for depreciation and interest, as they represent a devaluing of the colleges' CTE assets rather than an outflow of expenditures.

Table 1.1:
EMPLOYEE DATA, FY 2019-20

Full-time faculty and staff	3,019
Part-time faculty and staff	1,380
Total faculty and staff	4,399
% of employees who work in the county	100%
% of employees who live in the county	94%

Source: Data provided by the colleges.

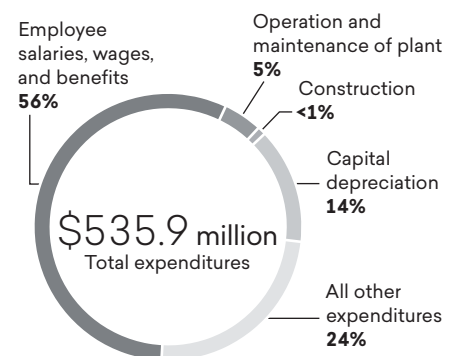
Figure 1.1: SDICCC'S CTE REVENUES BY SOURCE, FY 2019-20



*Revenue from state and local government includes capital appropriations.

Source: Data provided by the colleges.

Figure 1.2: SDICCC'S CTE EXPENSES BY FUNCTION, FY 2019-20



Source: Data provided by the colleges.

Percentages may not add due to rounding.

⁶ See Appendix 6 for a detailed description of the data sources used in the Emsi Burning Glass modeling tools.

⁷ Due to data limitations, the number of faculty and staff was estimated using a proportion based on CTE headcount.



Students

The colleges' CTE served 77,251 students taking courses for credit and 6,892 non-credit students in FY 2019-20. These numbers represent unduplicated student headcounts. The breakdown of the student body by gender was 48% male, 50% female, and 2% other. The breakdown by ethnicity was 65% students of color, 32% white, and 3% unknown. The CTE students' overall average age was 30 years old.⁸ An estimated 92% of students remain in San Diego County after finishing their time at the colleges, another 5% settle outside the county but in the state, and the remaining 3% settle outside the state.⁹

Table 1.2 summarizes the breakdown of the CTE student population and their corresponding awards and credits by education level. In FY 2019-20, the colleges' CTE served 46 bachelor's degree graduates, 5,522 associate degree graduates, and 1,672 certificate graduates. Another 68,016 students enrolled in courses for credit but did not complete a degree during the reporting year. The colleges' CTE offered dual credit courses to high schools, serving a total of 1,998 students over the course of the year. The colleges' CTE also served 508 basic education students and 322 personal enrichment students enrolled in non-credit courses. Non-degree seeking students enrolled in workforce or professional development programs accounted for 2,283 students. Students not allocated to the other categories comprised the remaining 3,776 students.

We use credit hour equivalents (CHEs) to track the educational workload of the CTE students. One CHE is equal to 15 contact hours of classroom instruction per semester. In the analysis, we exclude the CHE production of personal enrichment students under the assumption that they do not attain knowledge, skills, and abilities that will increase their earnings. The average number of CHEs per student (excluding personal enrichment students) was 11.6.

Table 1.2: BREAKDOWN OF CTE STUDENT HEADCOUNT AND CHE PRODUCTION BY EDUCATION LEVEL, FY 2019-20

Category	Headcount	Total CHEs	Average CHEs
Bachelor's degree graduates	46	1,190	25.9
Associate degree graduates	5,522	103,256	18.7
Certificate graduates	1,672	27,651	16.5
Continuing students	68,016	747,366	11.0
Dual credit students	1,998	13,103	6.6
Basic education students	508	9,504	18.7
Personal enrichment students	322	3,539	11.0
Workforce/professional development students	2,283	24,672	10.8
All other students	3,776	45,238	12.0
Total, all students	84,143	975,519	11.6
Total, less personal enrichment students	83,821	971,980	11.6

Source: Data provided by the colleges.

⁸ Unduplicated headcount, gender, ethnicity, and age data provided by the colleges.

⁹ For colleges that were unable to provide settlement data, Emsi Burning Glass used estimates based on student origin.

THE SAN DIEGO COUNTY ECONOMY



Since the colleges' CTE was first established, it has been serving San Diego County by enhancing the workforce, providing local residents with easy access to higher education opportunities, and preparing students for highly-skilled, technical professions. Table 1.3 summarizes the breakdown of the county economy by major industrial sector, with details on labor and non-labor income. Labor income refers to wages, salaries, and proprietors' income. Non-labor income refers to profits, rents, and other forms of investment income. Together, labor and non-labor income comprise the county's total income, which can also be considered as the county's gross regional product (GRP).

Table 1.3: LABOR AND NON-LABOR INCOME BY MAJOR INDUSTRY SECTOR IN SAN DIEGO COUNTY, 2021*

Industry sector	Labor income (millions)	Non-labor income (millions)	Total income (millions)**	% of total income	Sales (millions)
Government, Non-Education	\$21,592	\$14,709	\$36,300	14%	\$188,755
Manufacturing	\$14,027	\$16,724	\$30,751	12%	\$50,539
Professional & Technical Services	\$25,981	\$4,666	\$30,647	12%	\$48,674
Other Services (except Public Administration)	\$3,988	\$22,719	\$26,707	10%	\$37,195
Finance & Insurance	\$10,217	\$7,464	\$17,680	7%	\$31,293
Health Care & Social Assistance	\$14,246	\$1,997	\$16,242	6%	\$26,141
Retail Trade	\$7,483	\$5,149	\$12,633	5%	\$21,188
Wholesale Trade	\$5,684	\$6,659	\$12,343	5%	\$20,422
Information	\$3,518	\$7,852	\$11,370	4%	\$19,909
Construction	\$8,575	\$2,463	\$11,038	4%	\$21,799
Government, Education	\$10,049	\$0	\$10,049	4%	\$11,648
Real Estate & Rental & Leasing	\$5,870	\$3,459	\$9,329	4%	\$21,311
Administrative & Waste Services	\$7,254	\$1,763	\$9,017	4%	\$15,448
Accommodation & Food Services	\$4,439	\$2,633	\$7,072	3%	\$13,117
Management of Companies & Enterprises	\$3,927	\$331	\$4,259	2%	\$7,055
Utilities	\$1,056	\$2,356	\$3,412	1%	\$4,812
Transportation & Warehousing	\$2,467	\$398	\$2,866	1%	\$5,844
Educational Services	\$2,010	\$145	\$2,156	1%	\$3,051
Arts, Entertainment, & Recreation	\$1,630	\$405	\$2,035	1%	\$3,144
Agriculture, Forestry, Fishing & Hunting	\$793	\$289	\$1,081	<1%	\$2,640
Mining, Quarrying, & Oil and Gas Extraction	\$52	\$53	\$105	<1%	\$222
Total	\$154,858	\$102,234	\$257,091	100%	\$554,207

* Data reflect the most recent year for which data are available. Emsi Burning Glass data are updated quarterly.

** Numbers may not add due to rounding.

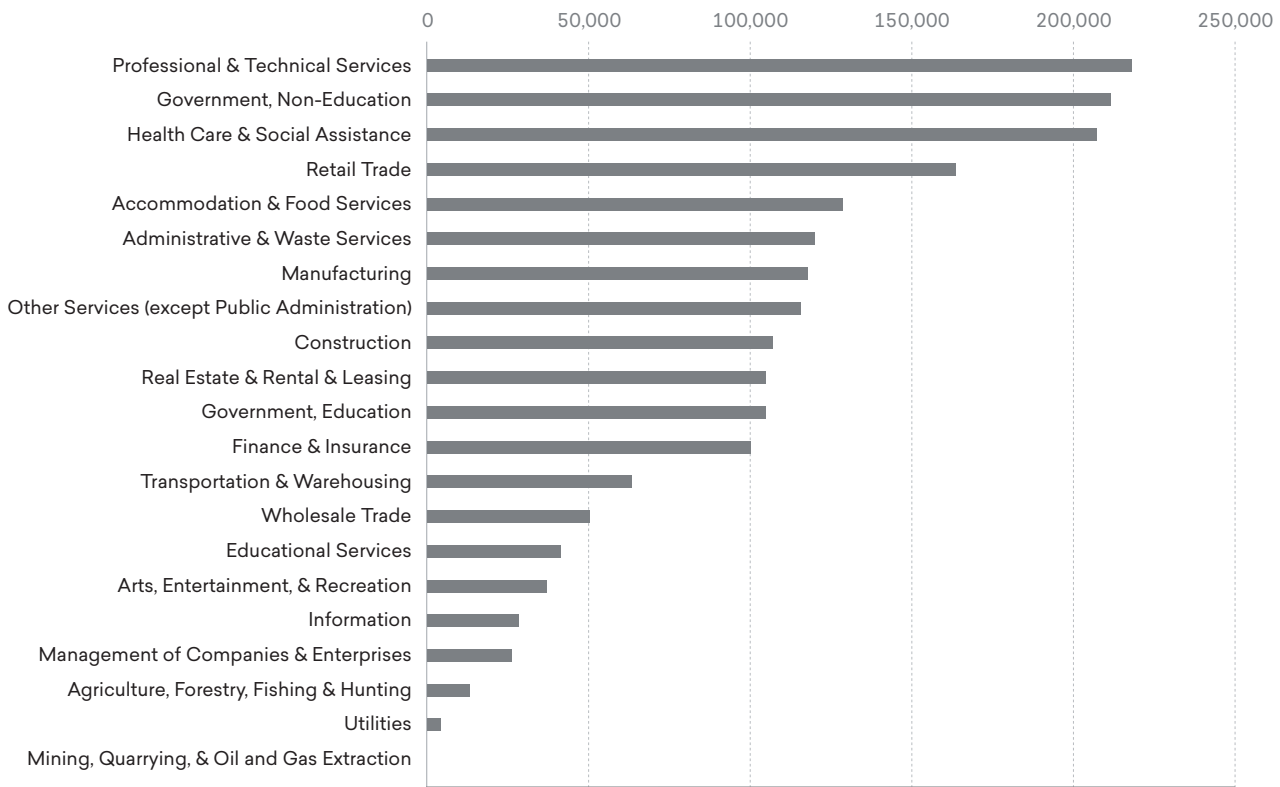
Source: Emsi Burning Glass industry data.



As shown in Table 1.3, the total income, or GRP, of San Diego County is approximately \$257.1 billion, equal to the sum of labor income (\$154.9 billion) and non-labor income (\$102.2 billion). In Chapter 2, we use the total added income as the measure of the relative impacts of the colleges' CTE on the county economy.

Figure 1.3 provides the breakdown of jobs by industry in San Diego County. The Professional & Technical Services sector is the largest employer, supporting 225,597 jobs or 11.1% of total employment in the county. The second largest employer (excluding government sectors) is the Health Care & Social Assistance sector, supporting 213,199 jobs or 10.5% of the county's total employment. Altogether, the county supports 2 million jobs.¹⁰

Figure 1.3: JOBS BY MAJOR INDUSTRY SECTOR IN SAN DIEGO COUNTY, 2021*



* Data reflect the most recent year for which data are available. Emsi Burning Glass data are updated quarterly. Source: Emsi Burning Glass employment data.

10 Job numbers reflect Emsi Burning Glass's complete employment data, which includes the following four job classes: 1) employees who are counted in the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), 2) employees who are not covered by the federal or state unemployment insurance (UI) system and are thus excluded from QCEW, 3) self-employed workers, and 4) extended proprietors.



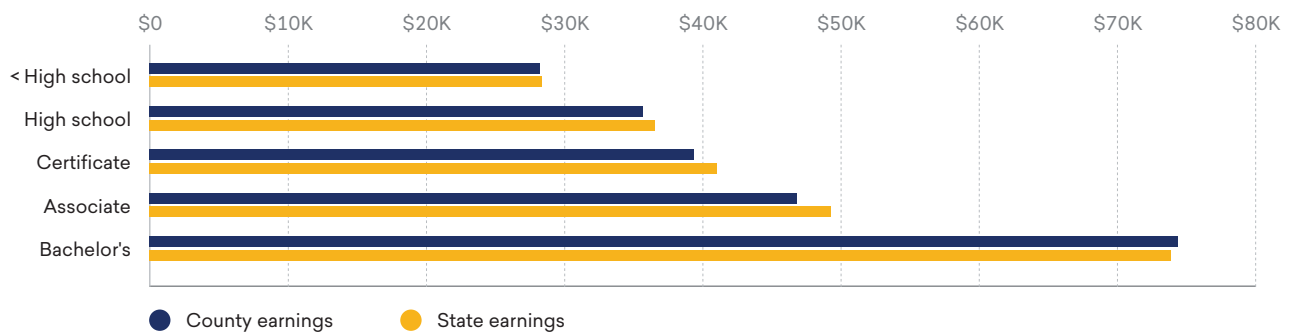
Table 1.4 and Figure 1.4 present the mean earnings by education level tailored to the colleges' CTE programs in San Diego County and the state of California at the midpoint of the average-aged worker's career. These numbers are derived from Emsi Burning Glass's complete employment data on average earnings per worker in the county and the state.¹¹ The numbers are then weighted by the colleges' CTE demographic profiles, and state earnings are weighted by students' settlement patterns. As shown, students have the potential to earn more as they achieve higher levels of education compared to maintaining a high school diploma. Students who earn an associate degree from the colleges' CTE can expect approximate wages of \$47,000 per year within San Diego County, approximately \$11,000 more than someone with a high school diploma.

Table 1.4: AVERAGE EARNINGS BY EDUCATION LEVEL AT A SDICCC'S CTE STUDENT'S CAREER MIDPOINT

Education level	County earnings	Difference from next lowest degree	State earnings	Difference from next lowest degree
Less than high school	\$28,100	n/a	\$28,200	n/a
High school or equivalent	\$36,000	\$7,900	\$36,200	\$8,000
Certificate	\$39,700	\$3,700	\$40,800	\$4,600
Associate degree	\$47,000	\$7,300	\$49,100	\$8,300
Bachelor's degree	\$74,600	\$27,600	\$74,000	\$24,900

Source: Emsi Burning Glass employment data.

Figure 1.4: AVERAGE EARNINGS BY EDUCATION LEVEL AT A SDICCC'S CTE STUDENT'S CAREER MIDPOINT



Source: Emsi Burning Glass employment data.

11 Wage rates in the Emsi Burning Glass MR-SAM model combine state and federal sources to provide earnings that reflect complete employment in the county, including proprietors, self-employed workers, and others not typically included in regional or state data, as well as benefits and all forms of employer contributions. As such, Emsi Burning Glass industry earnings-per-worker numbers are generally higher than those reported by other sources.

Economic impacts on the San Diego County economy



SDICCC's CTE impacts the San Diego County economy in a variety of ways. The colleges' CTE is an employer and buyer of goods and services. It attracts monies that otherwise would not have entered the county economy through its day-to-day operations, construction activities, and the expenditures of its students. Further, the colleges' CTE provides students with the knowledge, skills, and abilities they need to become productive citizens and add to the overall output of the county.



IN THIS CHAPTER, we estimate the following economic impacts of SDICCC's CTE: 1) the operations spending impact, 2) the construction spending impact, 3) the student spending impact, and 4) the alumni impact, measuring the income added in the county as former students expand the county economy's stock of human capital.

When exploring each of these economic impacts, we consider the following hypothetical question:

How would economic activity change in San Diego County if SDICCC's CTE and all its alumni did not exist in FY 2019-20?

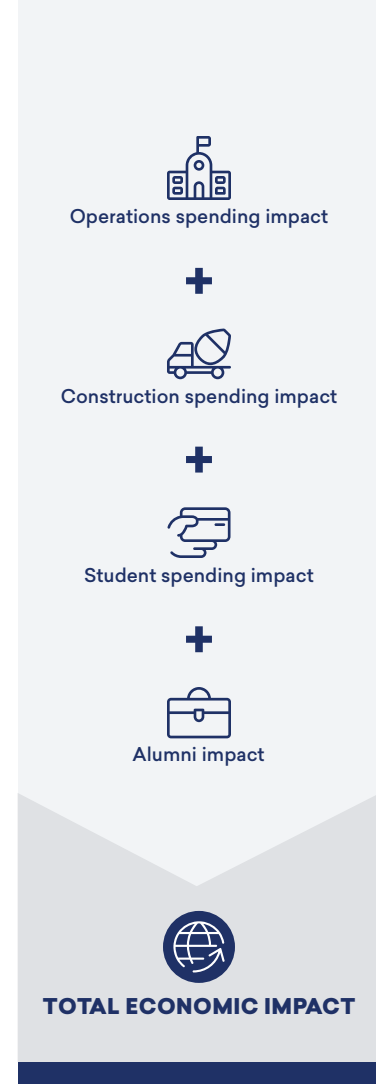
Each of the economic impacts should be interpreted according to this hypothetical question. Another way to think about the question is to realize that we measure net impacts, not gross impacts. Gross impacts represent an upper-bound estimate in terms of capturing all activity stemming from the colleges' CTE; however, net impacts reflect a truer measure of economic impact since they demonstrate what would not have existed in the county economy if not for the colleges' CTE.

Economic impact analyses use different types of impacts to estimate the results. The impact focused on in this study assesses the change in income. This measure is similar to the commonly used gross regional product (GRP). Income may be further broken out into the **labor income impact**, also known as earnings, which assesses the change in employee compensation; and the **non-labor income impact**, which assesses the change in business profits. Together, labor income and non-labor income sum to total income.

Another way to state the impact is in terms of **jobs**, a measure of the number of full- and part-time jobs that would be required to support the change in income. Finally, a frequently used measure is the **sales impact**, which comprises the change in business sales revenue in the economy as a result of increased economic activity. It is important to bear in mind, however, that much of this sales revenue leaves the county economy through intermediary transactions and costs.¹² All of these measures—added labor and non-labor income, total income, jobs, and sales—are used to estimate the economic impact results presented in this chapter. The analysis breaks out the impact measures into different components, each based on the economic effect that caused the impact. The following is a list of each type of effect presented in this analysis:

- The **initial effect** is the exogenous shock to the economy caused by the initial spending of money, whether to pay for salaries and wages, purchase goods or services, or cover operating expenses.
- The initial round of spending creates more spending in the economy, resulting in what is commonly known as the **multiplier effect**. The multiplier effect comprises the additional activity that occurs across all industries in the

¹² See Appendix 5 for an example of the intermediary costs included in the sales impact but not in the income impact.





economy and may be further decomposed into the following three types of effects:

- The **direct effect** refers to the additional economic activity that occurs as the industries affected by the initial effect spend money to purchase goods and services from their supply chain industries.
- The **indirect effect** occurs as the supply chain of the initial industries creates even more activity in the economy through their own inter-industry spending.
- The **induced effect** refers to the economic activity created by the household sector as the businesses affected by the initial, direct, and indirect effects raise salaries or hire more people.

The terminology used to describe the economic effects listed above differs slightly from that of other commonly used input-output models, such as IMPLAN. For example, the initial effect in this study is called the “direct effect” by IMPLAN, as shown in the table below. Further, the term “indirect effect” as used by IMPLAN refers to the combined direct and indirect effects defined in this study. To avoid confusion, readers are encouraged to interpret the results presented in this chapter in the context of the terms and definitions listed above. Note that, regardless of the effects used to decompose the results, the total impact measures are analogous.

Emsi Burning Glass	Initial	Direct	Indirect	Induced
IMPLAN	Direct	Indirect		Induced

Multiplier effects in this analysis are derived using Emsi Burning Glass’s Multi-Regional Social Accounting Matrix (MR-SAM) input-output model that captures the interconnection of industries, government, and households in the county. The Emsi Burning Glass MR-SAM contains approximately 1,000 industry sectors at the highest level of detail available in the North American Industry Classification System (NAICS) and supplies the industry-specific multipliers required to determine the impacts associated with increased activity within a given economy. The multi-regional capacity of the MR-SAM allows impacts to be measured in the region and state simultaneously, taking into account SDICCC’s CTE’s activity in each area, as well as each area’s economic characteristics. In this analysis, impacts on the region include impacts from the colleges’ CTE regional activity, as well as the indirect and induced multiplier effects that reach the region from the colleges’ CTE activity in the rest of the state. For more information on the Emsi Burning Glass MR-SAM model and its data sources, see Appendix 6.

Net impacts reflect a truer measure of economic impact since they demonstrate what would not have existed in the county economy if not for the colleges’ CTE.

OPERATIONS SPENDING IMPACT



Faculty and staff payroll is part of the county’s total earnings, and the spending of employees for groceries, apparel, and other household expenditures helps support county businesses. The colleges themselves purchase supplies and services, and many of their vendors are located in San Diego County. These expenditures create a ripple effect that generates still more jobs and higher wages throughout the economy.

Table 2.1 presents the colleges’ CTE expenditures (not including construction) for the following three categories: 1) salaries, wages, and benefits, 2) operation and maintenance of plant, and 3) all other expenditures, including purchases for supplies and services. Also included in all other expenditures are expenses associated with grants and scholarships. Many CTE students receive grants and scholarships that exceed the cost of tuition and fees. The colleges then dispense this residual financial aid to CTE students, who spend it on living expenses. Some of this spending takes place in the county and is therefore an injection of new money into the county economy that would not have happened if the colleges’ CTE did not exist. In this analysis, we exclude expenses for depreciation and interest due to the way those measures are calculated in the national input-output accounts, and because depreciation represents the devaluing of the colleges’ assets rather than an outflow of expenditures.¹³



Table 2.1: SDICCC’S CTE EXPENSES BY FUNCTION (EXCLUDING DEPRECIATION & INTEREST), FY 2019-20

Expense category	In-county expenditures (thousands)	Out-of-county expenditures (thousands)	Total expenditures (thousands)
Employee salaries, wages, and benefits	\$297,615	\$632	\$298,247
Operation and maintenance of plant	\$25,612	\$3,297	\$28,909
All other expenditures	\$67,862	\$63,279	\$131,141
Total	\$391,089	\$67,207	\$458,297

This table does not include expenditures for construction, as they are presented separately in the following section. Source: Data provided by the colleges and the Emsi Burning Glass impact model.

¹³ This aligns with the economic impact guidelines set by the Association of Public and Land-Grant Universities. Ultimately, excluding these measures results in more conservative and defensible estimates.



The first step in estimating the multiplier effects of the colleges' CTE operational expenditures is to map these categories of expenditures to the approximately 1,000 industries of the Emsi Burning Glass MR-SAM model. Assuming that the spending patterns of the colleges' CTE personnel approximately match those of the average U.S. consumer, we map salaries, wages, and benefits to spending on industry outputs using national household expenditure coefficients provided by Emsi Burning Glass's national SAM. Almost all of SDICCC's CTE employees work in San Diego County (see Table 1.1), and therefore we consider 99.8% of the salaries, wages, and benefits. For the other two expenditure categories (i.e., operation and maintenance of plant and all other expenditures), we assume the colleges' CTE spending patterns approximately match national averages and apply the national spending coefficients for NAICS 903612 (Colleges, Universities, and Professional Schools (Local Government)).¹⁴ Operation and maintenance of plant expenditures are mapped to the industries that relate to capital construction, maintenance, and support, while the colleges' CTE remaining expenditures are mapped to the remaining industries.

We now have three vectors of expenditures for SDICCC's CTE: one for salaries, wages, and benefits; another for operation and maintenance of plant; and a third for the purchases of supplies and services. The next step is to estimate the portion of these expenditures that occur inside the county. The expenditures occurring outside the county are known as leakages. We estimate in-county expenditures using regional purchase coefficients (RPCs), a measure of the overall demand for the commodities produced by each sector that is satisfied by county suppliers, for each of the approximately 1,000 industries in the MR-SAM model.¹⁵ For example, if 40% of the demand for NAICS 541211 (Offices of Certified Public Accountants) is satisfied by county suppliers, the RPC for that industry is 40%. The remaining 60% of the demand for NAICS 541211 is provided by suppliers located outside the county. The three vectors of expenditures are multiplied, industry by industry, by the corresponding RPC to arrive at the in-county expenditures associated with the colleges. See Table 2.1 for a break-out of the expenditures that occur in-county. Finally, in-county spending is entered, industry by industry, into the MR-SAM model's multiplier matrix, which in turn provides an estimate of the associated multiplier effects on county labor income, non-labor income, total income, sales, and jobs.

Table 2.2 presents the economic impact of the colleges' CTE operations spending. The people employed by SDICCC's CTE and their salaries, wages, and benefits comprise the initial effect, shown in the top row of the table in terms of labor income, non-labor income, total added income, sales, and jobs. The additional impacts created by the initial effect appear in the next four rows under the section labeled *multiplier effect*. Summing the initial and multiplier effects, the gross impacts are \$435.1 million in labor income and \$117 million in non-labor income. This sums to a total impact of \$552.1 million in total added income associated with the spending of the colleges' CTE and their CTE employees in the county. This is equivalent to supporting 6,279 jobs.

¹⁴ See Appendix 3 for a definition of NAICS.

¹⁵ See Appendix 6 for a description of Emsi Burning Glass's MR-SAM model.



Table 2.2: OPERATIONS SPENDING IMPACT, FY 2019-20

	Labor income (thousands)	Non-labor income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$297,615	\$0	\$297,615	\$458,297	4,385
Multiplier effect					
Direct effect	\$35,054	\$20,690	\$55,744	\$93,475	313
Indirect effect	\$10,543	\$5,441	\$15,985	\$27,758	91
Induced effect	\$91,886	\$90,840	\$182,727	\$289,471	1,490
Total multiplier effect	\$137,483	\$116,972	\$254,455	\$410,703	1,893
Gross impact (initial + multiplier)	\$435,098	\$116,972	\$552,070	\$868,999	6,279
Less alternative uses of funds	-\$64,833	-\$70,616	-\$135,448	-\$206,113	-1,195
Net impact	\$370,266	\$46,356	\$416,622	\$662,886	5,084

Source: Emsi Burning Glass impact model.

The \$552.1 million in gross impact is often reported by researchers as the total impact. We go a step further to arrive at a net impact by applying a counterfactual scenario, i.e., what would have happened if a given event—in this case, the expenditure of in-county funds on SDICCC’s CTE—had not occurred. SDICCC’s CTE received an estimated 54% of its funding from sources within San Diego County. This portion of the colleges’ CTE funding came from the tuition and fees paid by resident students, from the auxiliary revenue and donations from private sources located within the county, from state and local taxes, and from the financial aid issued to students by state and local government. We must account for the opportunity cost of this in-county funding. Had other industries received these monies rather than SDICCC’s CTE, income impacts would have still been created in the economy. In economic analysis, impacts that occur under counterfactual conditions are used to offset the impacts that actually occur in order to derive the true impact of the event under analysis.

We estimate this counterfactual by simulating a scenario where in-county monies spent on the colleges’ CTE are instead spent on consumer goods and savings. This simulates the in-county monies being returned to the taxpayers and being spent by the household sector. Our approach is to establish the total amount spent by in-county students and taxpayers on SDICCC’s CTE, map this to the detailed industries of the MR-SAM model using national household expenditure coefficients, use the industry RPCs to estimate in-county spending, and run the in-county spending through the MR-SAM model’s multiplier matrix to derive multiplier effects. The results of this exercise are shown as negative values in the row labeled *less alternative uses of funds* in Table 2.2.

The total net impact of the colleges’ CTE operations is equal to the gross impact less the impact of the alternative use of funds—the opportunity cost of the county money. As shown in the last row of Table 2.2, the total net impact is approximately \$370.3 million in labor income and \$46.4 million in non-labor income. This sums together to \$416.6 million in total added income and is equivalent to supporting 5,084 jobs. These impacts represent new economic activity created in the county economy solely attributable to the operations of SDICCC’s CTE.

The total net impact of the colleges’ CTE operations is **\$416.6 million** in total added income, which is equivalent to supporting **5,084 jobs**.

CONSTRUCTION SPENDING IMPACT



In this section, we estimate the economic impact of the colleges' CTE construction spending. Because construction funding is separate from operations funding in the budgeting process, it is not captured in the operations spending impact estimated earlier. However, like operations spending, the construction spending creates subsequent rounds of spending and multiplier effects that generate still more jobs and income throughout the county. During FY 2019-20, SDICCC spent a total of \$4.7 million on various CTE construction projects.

Assuming the colleges' CTE construction spending approximately matches national construction spending patterns of NAICS 903612 (Colleges, Universities, and Professional Schools (Local Government)), we map construction spending to the construction industries of the MR-SAM model. Next, we use the RPCs to estimate the portion of this spending that occurs in-county. Finally, the in-county spending is run through the multiplier matrix to estimate the direct, indirect, and induced effects. Because construction is so labor intensive, the non-labor income impact is relatively small.

To account for the opportunity cost of any in-county construction money, we estimate the impact of a similar alternative uses of funds as found in the operations spending impact. This is done by simulating a scenario where in-county monies spent on construction are instead spent on consumer goods. These impacts are then subtracted from the gross construction spending impacts. Again, since

During FY 2019-20, SDICCC's CTE spent a total of **\$4.7 million** on various construction projects.



construction is so labor intensive, most of the added income stems from labor income as opposed to non-labor income.

Table 2.3 presents the impacts of the colleges' CTE construction spending during FY 2019-20. Note the initial effect is purely a sales effect, so there is no initial change in labor or non-labor income. The FY 2019-20 CTE construction spending creates a net total short-run impact of \$2.3 million in labor income and \$134.5 thousand in non-labor income. This is equal to \$2.4 million in added income—the equivalent of supporting 26 jobs in San Diego County.

Table 2.3: CONSTRUCTION SPENDING IMPACT, FY 2019-20

	Labor income (thousands)	Non-labor income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$0	\$0	\$0	\$4,726	0
Multiplier effect					
Direct effect	\$1,649	\$486	\$2,135	\$4,193	21
Indirect effect	\$421	\$124	\$545	\$1,070	5
Induced effect	\$865	\$255	\$1,119	\$2,198	11
Total multiplier effect	\$2,935	\$865	\$3,799	\$7,461	38
Gross impact (initial + multiplier)	\$2,935	\$865	\$3,799	\$12,187	38
Less alternative uses of funds	-\$670	-\$730	-\$1,400	-\$2,130	-12
Net impact	\$2,265	\$135	\$2,399	\$10,057	26

Source: Emsi Burning Glass impact model.



STUDENT SPENDING IMPACT



Both in-county and out-of-county CTE students contribute to the student spending impact of SDICCC's CTE; however, not all of these students can be counted towards the impact. Of the in-county CTE students, only those students who were retained, or who would have left the county to seek education elsewhere had they not attended the colleges, are measured. CTE students who would have stayed in the county anyway are not counted towards the impact since their monies would have been added to the San Diego County economy regardless of the colleges. In addition, only the out-of-county CTE students who relocated to San Diego County to attend the colleges are measured. CTE students who commute from outside the county or take courses online are not counted towards the student spending impact because they are not adding money from living expenses to the county.

While there were 75,093 CTE students attending the colleges who originated from San Diego County (not including personal enrichment students and dual credit high school students),¹⁶ not all of them would have remained in the county if not for the existence of SDICCC's CTE. We apply a conservative assumption that 10% of these CTE students would have left San Diego County for other education opportunities if the colleges did not exist.¹⁷ Therefore, we recognize that the in-county spending of 7,509 CTE students retained in the county is attributable to the colleges. These CTE students, called retained students,

¹⁶ For colleges that were unable to provide origin data for their non-credit students, we assume that all non-credit students originated from within the county.

¹⁷ See Appendix 2 for a sensitivity analysis of the retained student variable.



spent money at businesses in the county for everyday needs such as groceries, accommodation, and transportation.

Relocated students are also accounted for in SDICCC's CTE student spending impact. An estimated 3,398 CTE students came from outside the county and lived off campus while attending the colleges in FY 2019-20. The off-campus expenditures of out-of-county CTE students supported jobs and created new income in the county economy.¹⁸

The average costs for CTE students appear in the first section of Table 2.4, equal to \$19,526 per student. Note that this table excludes expenses for books and supplies, since many of these costs are already reflected in the operations impact discussed in the previous section. We multiply the \$19,526 in annual costs by the 10,907 CTE students who either were retained or relocated to the county because of SDICCC's CTE and lived in-county but off campus. This provides us with an estimate of their total spending. Altogether, off-campus spending of relocated and retained CTE students generated gross sales of \$210.7 million. This figure, once net of the monies paid to CTE student workers, yields net off-campus sales of \$209.5 million, as shown in the bottom row of Table 2.4.

Table 2.4: AVERAGE CTE STUDENT COSTS AND TOTAL SALES GENERATED BY RELOCATED AND RETAINED STUDENTS IN SAN DIEGO COUNTY, FY 2019-20

Room and board	\$14,912
Personal expenses	\$2,612
Transportation	\$2,002
Total expenses per student	\$19,526
<i>Number of students retained</i>	<i>7,509</i>
<i>Number of students relocated</i>	<i>3,398</i>
Gross retained student sales	\$146,624,218
Gross relocated student sales	\$64,051,626
Total gross off-campus sales	\$210,675,844
Wages and salaries paid to student workers*	\$1,127,580
Net off-campus sales	\$209,494,779

* This figure reflects only the portion of payroll that was used to cover the living expenses of relocated and retained student workers who lived in the county.

Source: Student costs and wages provided by the colleges. Emsi Burning Glass provided estimates of the monies paid to student workers based on the SDICCC average for colleges that were unable to provide data. The number of relocated and retained students who lived in the county off campus while attending is derived by Emsi Burning Glass from the student origin data and in-term residence data provided by the colleges.

Estimating the impacts generated by the \$209.5 million in student spending follows a procedure similar to that of the operations impact described above. We distribute the \$209.5 million in sales to the industry sectors of the MR-SAM

18 Online students and students who commuted to San Diego County from outside the county are not considered in this calculation because it is assumed their living expenses predominantly occurred in the county where they resided during the analysis year. We recognize that not all online students live outside the county, but keep the assumption given data limitations.



model, apply RPCs to reflect in-county spending, and run the net sales figures through the MR-SAM model to derive multiplier effects.

Table 2.5 presents the results. The initial effect is purely sales-oriented and there is no change in labor or non-labor income. The impact of relocated and retained CTE student spending thus falls entirely under the multiplier effect. The total impact of CTE student spending is \$107.4 million in labor income and \$72.4 million in non-labor income. This sums together to \$179.8 million in total added income and is equivalent to supporting 2,793 jobs.

These values represent the direct effects created at the businesses patronized by the CTE students, the indirect effects created by the supply chain of those businesses, and the effects of the increased spending of the household sector throughout the county economy as a result of the direct and indirect effects.

The total impact of CTE student spending is **\$179.8 million** in total added income and is equivalent to supporting **2,793 jobs**.

Table 2.5: STUDENT SPENDING IMPACT, FY 2019-20

	Labor income (thousands)	Non-labor income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$0	\$0	\$0	\$209,495	0
Multiplier effect					
Direct effect	\$54,497	\$36,685	\$91,182	\$160,529	1,407
Indirect effect	\$18,643	\$12,683	\$31,326	\$57,053	510
Induced effect	\$34,229	\$23,077	\$57,306	\$100,290	876
Total multiplier effect	\$107,368	\$72,445	\$179,814	\$317,872	2,793
Total impact (initial + multiplier)	\$107,368	\$72,445	\$179,814	\$527,366	2,793

Source: Emsi Burning Glass impact model.



In this section, we estimate the economic impacts stemming from the added labor income of CTE alumni in combination with their employers' added non-labor income. This impact is based on the number of CTE students who have attended the colleges *throughout their history*. We then use this total number to consider the impact of those CTE students in the single FY 2019-20.

Former students who earned a degree as well as those who may not have finished their degree or did not take courses for credit are considered alumni.

While SDICCC's CTE creates an economic impact through its operations, construction, and student spending, the greatest economic impact of SDICCC's CTE stems from the added human capital—the knowledge, creativity, imagination, and entrepreneurship—found in the colleges' CTE alumni. While attending the colleges, CTE students gain experience, education, and the knowledge, skills, and abilities that increase their productivity and allow them to command a higher wage once they enter the workforce. But the reward of increased productivity does not stop there. Talented professionals make capital more productive too (e.g., buildings, production facilities, equipment). The employers of the colleges' CTE alumni enjoy the fruits of this increased productivity in the form of additional non-labor income (i.e., higher profits).

The methodology here differs from the previous impacts in one fundamental way. Whereas the previous spending impacts depend on an annually renewed

The greatest economic impact of SDICCC's CTE stems from the added human capital—the knowledge, creativity, imagination, and entrepreneurship—found in its CTE alumni.



injection of new sales into the county economy, the alumni impact is the result of years of past instruction and the associated accumulation of human capital. The initial effect of CTE alumni is comprised of two main components. The first and largest of these is the added labor income of the colleges' former CTE students. The second component of the initial effect is comprised of the added non-labor income of the businesses that employ former CTE students of SDICCC.

We begin by estimating the portion of CTE alumni who are employed in the workforce. To estimate the historical employment patterns of CTE alumni in the county, we use the following sets of data or assumptions: 1) settling-in factors to determine how long it takes the average student to settle into a career;¹⁹ 2) death, retirement, and unemployment rates from the National Center for Health Statistics, the Social Security Administration, and the Bureau of Labor Statistics; and 3) state migration data from the Internal Revenue Service. The result is the estimated portion of CTE alumni from each previous year who were still actively employed in the county as of FY 2019-20.

The next step is to quantify the skills and human capital that alumni acquired from the colleges' CTE. We use the CTE students' production of CHEs as a proxy for accumulated human capital. The average number of CHEs completed per CTE student in FY 2019-20 was 11.6. To estimate the number of CHEs present in the workforce during the analysis year, we use the colleges' historical CTE student headcount over the past 30 years, from FY 1990-91 to FY 2019-20.²⁰ We multiply the 11.6 average CHEs per CTE student by the headcounts that we estimate are still actively employed from each of the previous years.²¹ CTE students who enroll at the colleges more than one year are counted at least twice in the historical enrollment data. However, CHEs remain distinct regardless of when and by whom they were earned, so there is no duplication in the CHE counts. We estimate there are approximately 13.1 million CHEs from CTE alumni active in the workforce.

Next, we estimate the value of the CHEs, or the skills and human capital acquired by the colleges' CTE alumni. This is done using the *incremental* added labor income stemming from the CTE students' higher wages. The incremental added labor income is the difference between the wage earned by the colleges' CTE alumni and the alternative wage they would have earned had they not attended the colleges. Using the county incremental earnings, credits required, and distribution of credits at each level of study, we estimate the average value per CHE to equal \$142. This value represents the county average incremental increase in wages that the colleges' CTE alumni received during the analysis year for every CHE they completed.

19 Settling-in factors are used to delay the onset of the benefits to students in order to allow time for them to find employment and settle into their careers. In the absence of hard data, we assume a range between one and three years for students who graduate with a certificate or a degree, and between one and five years for returning students.

20 We apply a 30-year time horizon because the data on CTE students who attended the colleges prior to FY 1990-91 is less reliable, and because most of the students served more than 30 years ago had left the county workforce by FY 2019-20.

21 This assumes the average credit load and level of study from past years is equal to the credit load and level of study of students today.



Because workforce experience leads to increased productivity and higher wages, the value per CHE varies depending on the CTE students' workforce experience, with the highest value applied to the CHEs of CTE students who had been employed the longest by FY 2019-20, and the lowest value per CHE applied to CTE students who were just entering the workforce. More information on the theory and calculations behind the value per CHE appears in Appendix 7. In determining the amount of added labor income attributable to alumni, we multiply the CHEs of former CTE students in each year of the historical time horizon by the corresponding average value per CHE for that year, and then sum the products together. This calculation yields approximately \$1.9 billion in gross labor income from increased wages received by former CTE students in FY 2019-20 (as shown in Table 2.6).

Table 2.6: NUMBER OF CHES IN WORKFORCE AND INITIAL LABOR INCOME CREATED IN SAN DIEGO COUNTY, FY 2019-20

Number of CHEs in workforce	13,113,402
Average value per CHE	\$142
Initial labor income, gross	\$1,863,524,193
Adjustments for counterfactual scenarios	
Percent reduction for alternative education opportunities	15%
Percent reduction for adjustment for labor import effects	50%
Initial labor income, net	\$791,997,782

Source: Emsi Burning Glass impact model.

The next two rows in Table 2.6 show two adjustments used to account for counterfactual outcomes. As discussed above, counterfactual outcomes in economic analysis represent what would have happened if a given event had not occurred. The event in question is the education and training provided by SDICCC's CTE and subsequent influx of skilled labor into the county economy. The first counterfactual scenario that we address is the adjustment for alternative education opportunities. In the counterfactual scenario where SDICCC's CTE did not exist, we assume a portion of the colleges' CTE alumni would have received a comparable education elsewhere in the county or would have left the county and received a comparable education and then returned to the county. The incremental added labor income that accrues to those students cannot be counted towards the added labor income from the colleges' CTE alumni. The adjustment for alternative education opportunities amounts to a 15% reduction of the \$1.9 billion in added labor income. This means that 15% of the added labor income from the colleges' CTE alumni would have been generated in the county anyway, even if the colleges' CTE did not exist. For more information on the alternative education adjustment, see Appendix 8.

The other adjustment in Table 2.6 accounts for the importation of labor. Suppose SDICCC's CTE did not exist and in consequence there were fewer skilled workers in the county. Businesses could still satisfy some of their need for skilled labor by recruiting from outside San Diego County. We refer to this as the labor



import effect. Lacking information on its possible magnitude, we assume 50% of the jobs that CTE students fill at county businesses could have been filled by workers recruited from outside the county if the colleges' CTE did not exist.²² Consequently, the gross labor income must be adjusted to account for the importation of this labor, since it would have happened regardless of the presence of the colleges' CTE. We conduct a sensitivity analysis for this assumption in Appendix 2. With the 50% adjustment, the net added labor income added to the economy comes to \$792 million, as shown in Table 2.6.

The \$792 million in added labor income appears under the initial effect in the labor income column of Table 2.7. To this we add an estimate for initial non-labor income. As discussed earlier in this section, businesses that employ former CTE students see higher profits as a result of the increased productivity of their capital assets. To estimate this additional income, we allocate the initial increase in labor income (\$792 million) to the six-digit NAICS industry sectors where students are most likely to be employed. This allocation entails a process that maps completers in the county to the detailed occupations for which those completers have been trained, and then maps the detailed occupations to the six-digit industry sectors in the MR-SAM model.²³ Using a crosswalk created by National Center for Education Statistics (NCES) and the Bureau of Labor Statistics, we map the breakdown of the colleges' CTE completers to the approximately 700 detailed occupations in the Standard Occupational Classification (SOC) system. Finally, we apply a matrix of wages by industry and by occupation from the MR-SAM model to map the occupational distribution of the \$792 million in initial labor income effects to the detailed industry sectors in the MR-SAM model.²⁴

Once these allocations are complete, we apply the ratio of non-labor to labor income provided by the MR-SAM model for each sector to our estimate of initial labor income. This computation yields an estimated \$352.1 million in added non-labor income attributable to the colleges' CTE alumni. Summing initial labor and non-labor income together provides the total initial effect of alumni productivity in the San Diego County economy, equal to approximately \$1.1 billion. To estimate multiplier effects, we convert the industry-specific income figures generated through the initial effect to sales using sales-to-income ratios from the MR-SAM model. We then run the values through the MR-SAM's multiplier matrix.

Table 2.7 shows the multiplier effects of alumni. Multiplier effects occur as CTE alumni generate an increased demand for consumer goods and services through the expenditure of their higher wages. Further, as the industries where CTE alumni are employed increase their output, there is a corresponding increase in the demand for input from the industries in the employers' supply chain. Together,

22 A similar assumption is used by Walden (2014) in his analysis of the Cooperating Raleigh Colleges.

23 CTE Taxonomy of Programs (TOP) data were provided by SDICCC for each college. CTE TOP codes are mapped to corresponding Classification of Instructional Programs (CIP) codes developed by the National Center for Education Statistics (NCES) and linked to Standard Occupational Classification (SOC) codes.

24 For example, if the MR-SAM model indicates that 20% of wages paid to workers in SOC 51-4121 (Welders) occur in NAICS 332313 (Plate Work Manufacturing), then we allocate 20% of the initial labor income effect under SOC 51-4121 to NAICS 332313.



the incomes generated by the expansions in business input purchases and household spending constitute the multiplier effect of the increased productivity of the colleges' CTE alumni. The final results are \$740.7 million in added labor income and \$336.8 million in added non-labor income, for an overall total of \$1.1 billion in multiplier effects. The grand total of the CTE alumni impact is \$2.2 billion in total added income, the sum of all initial and multiplier labor and non-labor income effects. This is equivalent to supporting 25,242 jobs.

Table 2.7: ALUMNI IMPACT, FY 2019-20

	Labor income (thousands)	Non-labor income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$791,998	\$352,067	\$1,144,065	\$2,610,021	12,972
Multiplier effect					
Direct effect	\$164,194	\$80,169	\$244,363	\$495,491	2,689
Indirect effect	\$63,972	\$31,028	\$95,000	\$192,786	1,073
Induced effect	\$512,522	\$225,557	\$738,079	\$1,429,872	8,508
Total multiplier effect	\$740,688	\$336,754	\$1,077,442	\$2,118,149	12,270
Total impact (initial + multiplier)	\$1,532,685	\$688,821	\$2,221,506	\$4,728,169	25,242

Source: Emsi Burning Glass impact model.



TOTAL CTE IMPACT



The total economic impact of SDICCC's CTE on San Diego County can be generalized into two broad types of impacts. First, on an annual basis, SDICCC's CTE generates a flow of spending that has a significant impact on the county economy. The impacts of this spending are captured by the operations, construction, and student spending impacts. While not insignificant, these impacts do not capture the true purpose of SDICCC's CTE. The basic mission of the colleges' CTE is to foster human capital. Every year, a new cohort of the colleges' former CTE students adds to the stock of human capital in the county, and a portion of alumni continues to add to the county economy. Table 2.8 displays the grand total impacts of SDICCC's CTE on the San Diego County economy in FY 2019-20. For context, the percentages of the colleges' CTE compared to the total labor income, total non-labor income, combined total income, sales, and jobs in San Diego County, as presented in Table 1.3 and Figure 1.3, are included. The total added value of SDICCC's CTE is **\$2.8 billion**, equivalent to **1.1%** of the GRP of San Diego County. By comparison, this contribution that the colleges' CTE provides on its own is as large as the entire Transportation & Warehousing industry in the county. SDICCC's CTE total impact supported **33,145 jobs** in FY 2019-20. For perspective, this means that **one out of every 61 jobs** in San Diego County is supported by the CTE activities of the colleges and their students.



Table 2.8: TOTAL SDICCC'S CTE IMPACT, FY 2019-20

	Labor income (thousands)	Non-labor income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Operations spending	\$370,266	\$46,356	\$416,622	\$662,886	5,084
Construction spending	\$2,265	\$135	\$2,399	\$10,057	26
Student spending	\$107,368	\$72,445	\$179,814	\$527,366	2,793
Alumni	\$1,532,685	\$688,821	\$2,221,506	\$4,728,169	25,242
Total impact	\$2,012,584	\$807,757	\$2,820,341	\$5,928,479	33,145
% of the San Diego County economy	1.3%	0.8%	1.1%	1.1%	1.6%

Source: Emsi Burning Glass impact model.



These impacts from the colleges' CTE and its students stem from different industry sectors and spread throughout the county economy. Table 2.9 displays the total impact of SDICCC's CTE by each industry sector based on their two-digit NAICS code. The table shows the total impact of operations, construction, students, and alumni, as shown in Table 2.8, broken down by each industry sector's individual impact on the county economy using processes outlined earlier in this chapter. By showing the impact from individual industry sectors, it is possible to see in finer detail the industries that drive the greatest impact on the county economy from the colleges' CTE spending and from where SDICCC's CTE alumni are employed. For example, SDICCC's CTE spending and alumni in the Government, Non-Education industry sector generated an impact of \$292.3 million in FY 2019-20.

Table 2.9: TOTAL SDICCC'S CTE IMPACT BY INDUSTRY, FY 2019-20

Industry sector	Total income (thousands)	Jobs supported
Government, Education	\$367,976	5,238
Government, Non-Education	\$292,292	1,833
Professional & Technical Services	\$280,331	2,246
Health Care & Social Assistance	\$272,993	4,875
Manufacturing	\$224,014	1,121
Retail Trade	\$195,461	2,774
Accommodation & Food Services	\$172,103	3,311
Construction	\$160,899	1,697
Finance & Insurance	\$160,710	848
Wholesale Trade	\$128,276	646
Information	\$115,703	360
Administrative & Waste Services	\$101,764	1,411
Other Services (except Public Administration)	\$101,037	3,055
Real Estate & Rental & Leasing	\$71,134	860
Transportation & Warehousing	\$41,901	791
Educational Services	\$33,086	891
Management of Companies & Enterprises	\$32,458	204
Arts, Entertainment, & Recreation	\$27,934	754
Utilities	\$25,959	42
Agriculture, Forestry, Fishing, & Hunting	\$13,459	183
Mining, Quarrying, & Oil and Gas Extraction	\$851	5
Total impact	\$2,820,341	33,145

Source: Emsi Burning Glass impact model.

Investment analysis



The benefits generated by SDICCC's CTE affect the lives of many people. The most obvious beneficiaries are the colleges' CTE students; they give up time and money to go to the colleges in return for a lifetime of higher wages and improved quality of life. But the benefits do not stop there. As students earn more, communities and citizens throughout California benefit from an enlarged economy and a reduced demand for social services. In the form of increased tax revenues and public sector savings, the benefits of education extend as far as the state and local government.

Investment analysis is the process of evaluating total costs and measuring these against total benefits to determine whether or not a proposed venture will be profitable. If benefits outweigh costs, then the investment is worthwhile. If costs outweigh benefits, then the investment will lose money and is thus considered infeasible. In this chapter, we consider SDICCC's CTE as a worthwhile investment from the perspectives of students, taxpayers, and society.





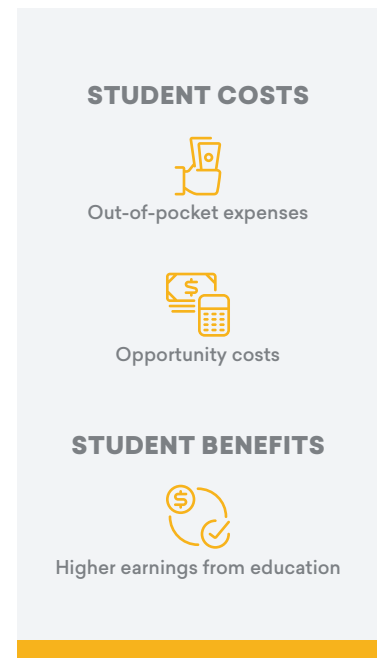
To enroll in postsecondary education, CTE students pay for tuition and forego monies that otherwise they would have earned had they chosen to work instead of attend college. From the perspective of CTE students, education is the same as an investment; i.e., they incur a cost, or put up a certain amount of money, with the expectation of receiving benefits in return. The total costs consist of the tuition and fees that students pay and the opportunity cost of foregone time and money. The benefits are the higher earnings that CTE students receive as a result of their education.

Calculating student costs

Student costs consist of three main items: direct outlays, opportunity costs, and future principal and interest costs incurred from student loans. Direct outlays include tuition and fees, equal to \$28.4 million from Figure 1.1. Direct outlays also include the cost of books and supplies. On average, full-time CTE students spent \$1,790 each on books and supplies during the reporting year.²⁵ Multiplying this figure by the number of full-time equivalents (FTEs) produced by SDICCC's CTE in FY 2019-20²⁶ generates a total cost of \$74 million for books and supplies.

In order to pay the cost of tuition, many CTE students had to take out loans. These students not only incur the cost of tuition from the colleges but also incur the interest cost of taking out loans. In FY 2019-20, CTE students received a total of \$2.8 million in federal loans to attend the colleges.²⁷ Students pay back these loans along with interest over the span of several years in the future. Since CTE students pay off these loans over time, they accrue no initial cost during the analysis year. Hence, to avoid double counting, the \$2.8 million in federal loans is subtracted from the costs incurred by students in FY 2019-20.

In addition to the cost of tuition, books, and supplies, CTE students also experienced an opportunity cost of attending college during the analysis year.



²⁵ Based on the data provided by the colleges.

²⁶ A single FTE is equal to 30 CHEs, so there were 32,399 FTEs produced by CTE students in FY 2019-20, equal to 975,519 CHEs divided by 30 (excluding personal enrichment students).

²⁷ Due to data limitations, only federal loans are considered in this analysis.

Opportunity cost is the most difficult component of student costs to estimate. It measures the value of time and earnings foregone by students who go to the colleges rather than work. To calculate it, we need to know the difference between the CTE students' full earning potential and what they actually earn while attending the colleges.

We derive the CTE students' full earning potential by weighting the average annual earnings levels in Table 1.4 according to the education level breakdown of the CTE student population at the start of the analysis year.²⁸ However, the earnings levels in Table 1.4 reflect what average workers earn at the midpoint of their careers, not while attending the colleges. Because of this, we adjust the earnings levels to the average age of the CTE student population (30) to better reflect their wages at their current age.²⁹ This calculation yields an average full earning potential of \$29,656 per student.

In determining how much CTE students earn while enrolled in postsecondary education, an important factor to consider is the time that they actually spend on postsecondary education, since this is the only time that they are required to give up a portion of their earnings. We use the CTE students' CHE production as a proxy for time, under the assumption that the more CHEs students earn, the less time they have to work, and, consequently, the greater their foregone earnings. Overall, CTE students attending the colleges in FY 2019-20 earned an average of 11.7 CHEs per student (excluding personal enrichment students and dual credit high school students), which is approximately equal to 39% of a full academic year.³⁰ We thus include no more than \$11,585 (or 39%) of the CTE students' full earning potential in the opportunity cost calculations.

Another factor to consider is the CTE students' employment status while enrolled in postsecondary education. It is estimated that 80% of students are employed.³¹ For the remainder of CTE students, we assume that they are either seeking work or planning to seek work once they complete their educational goals (with the exception of personal enrichment students, who are not included in this calculation). By choosing to enroll, therefore, non-working students give up everything that they can potentially earn during the academic year (i.e., the \$11,585). The total value of their foregone earnings thus comes to \$181.1 million.

Working CTE students are able to maintain all or part of their earnings while enrolled. However, many of them hold jobs that pay less than statistical averages, usually because those are the only jobs they can find that accommodate their course schedule. These jobs tend to be at entry level, such as restaurant servers or cashiers. To account for this, we assume that working CTE students hold jobs



28 This is based on students who reported their prior level of education to the colleges. The prior level of education data was then adjusted to exclude dual credit high school students.

29 Further discussion on this adjustment appears in Appendix 7.

30 Equal to 11.7 CHEs divided by 30, the assumed number of CHEs in a full-time academic year.

31 Emsi Burning Glass provided estimates of the percentage of students employed for colleges that were unable to provide data. This figure excludes dual credit high school students, who are not included in the opportunity cost calculations.





that pay 76% of what they would have earned had they chosen to work full-time rather than go to college.³² The remaining 24% comprises the percentage of their full earning potential that they forego. Obviously, this assumption varies by person; some CTE students forego more and others less. Since we do not know the actual jobs that students hold while attending, the 24% in foregone earnings serves as a reasonable average.

Working CTE students also give up a portion of their leisure time in order to attend higher education institutions. According to the Bureau of Labor Statistics American Time Use Survey, students forego up to 0.5 hours of leisure time per day.³³ Assuming that an hour of leisure is equal in value to an hour of work, we derive the total cost of leisure by multiplying the number of leisure hours foregone during the academic year by the average hourly pay of the CTE students' full earning potential. For working students, therefore, their total opportunity cost is \$233.3 million, equal to the sum of their foregone earnings (\$183.4 million) and foregone leisure time (\$50 million).

Thus far we have discussed CTE student costs during the analysis year. However, recall that CTE students take out student loans to attend college during the year, which they will have to pay back over time. The amount they will be paying in the future must be a part of their decision to attend the colleges today. CTE students who take out loans are not only required to pay back the principal of the loan but to also pay back a certain amount in interest. The first step in calculating students' loan interest cost is to determine the payback time for the loans. The \$2.8 million in loans was awarded to 582 students, averaging \$4,774 per student in the analysis year. However, this figure represents only one year of loans. Because loan payback time is determined by total indebtedness, we assume that since the colleges are two-year colleges, CTE students will be indebted twice that amount, or \$9,548 on average. According to the U.S. Department of Education, this level of indebtedness will take 12 years to pay back under the standard repayment plan.³⁴

This indebtedness calculation is used solely to estimate the loan payback period. CTE students will be paying back the principal amount of \$2.8 million over time. After taking into consideration the time value of money, this means that students will pay off a discounted present value of \$2.1 million in principal over the 12 years. In order to calculate interest, we only consider interest on the federal loans awarded to CTE students in FY 2019-20. Using the student discount rate of 4.5%³⁵ as our interest rate, we calculate that students will pay a total discounted present

32 The 76% assumption is based on the average hourly wage of jobs commonly held by working students divided by the national average hourly wage. Occupational wage estimates are published by the Bureau of Labor Statistics (see http://www.bls.gov/oes/current/oes_nat.htm).

33 "Charts by Topic: Leisure and Sports Activities," American Time Use Survey, Last modified December 2016. <http://www.bls.gov/tus/charts/leisure.htm>.

34 Repayment period based on total education loan indebtedness, U.S. Department of Education, 2021. <https://studentaid.ed.gov/sa/repay-loans/understand/plans/standard>.

35 The student discount rate is derived from the baseline forecasts for the 10-year discount rate published by the Congressional Budget Office. See the Congressional Budget Office, Student Loan and Pell Grant Programs—March 2020 Baseline. <https://www.cbo.gov/system/files/2020-03/51310-2020-03-studentloan.pdf>.



value of \$678.5 thousand in interest on student loans throughout the first 12 years of their working lifetime. The stream of these future interest costs together with the stream of loan payments is included in the costs of Column 5 of Table 3.2.

The steps leading up to the calculation of CTE student costs appear in Table 3.1. Direct outlays amount to \$99.5 million, the sum of tuition and fees (\$28.4 million) and books and supplies (\$74 million), less federal loans received (\$2.8 million) and \$48.2 thousand in direct outlays of personal enrichment students (those students are excluded from the cost calculations). Opportunity costs for working and non-working CTE students amount to \$346.3 million, excluding \$68.2 million in offsetting residual aid that is paid directly to students.³⁶ Finally, we have the present value of future student loan costs, amounting to \$2.7 million between principal and interest. Summing direct outlays, opportunity costs, and future student loan costs together yields a total of \$448.6 million in present value CTE student costs.

Table 3.1: PRESENT VALUE OF CTE STUDENT COSTS, FY 2019-20 (THOUSANDS)

Direct outlays in FY 2019-20	
Tuition and fees	\$28,360
Less federal loans received	-\$2,781
Books and supplies	\$74,017
Less direct outlays of personal enrichment students	-\$48
Total direct outlays	\$99,548
Opportunity costs in FY 2019-20	
Earnings foregone by non-working students	\$181,149
Earnings foregone by working students	\$183,365
Value of leisure time foregone by working students	\$49,971
Less residual aid	-\$68,199
Total opportunity costs	\$346,286
Future student loan costs (present value)	
Student loan principal	\$2,060
Student loan interest	\$679
Total present value student loan costs	\$2,738
Total present value student costs	\$448,573

Source: Based on data provided by the colleges and outputs of the Emsi Burning Glass impact model.

Linking education to earnings

Having estimated the costs of education to CTE students, we weigh these costs against the benefits that students receive in return. The relationship between education and earnings is well documented and forms the basis for determining

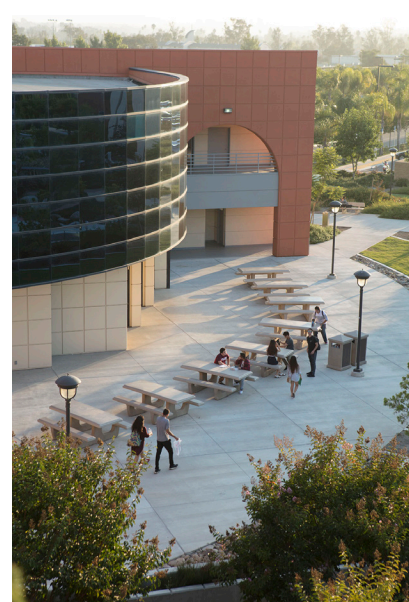
³⁶ Residual aid is the remaining portion of scholarship or grant aid distributed directly to a student after the colleges apply tuition and fees.

student benefits. As shown in Table 1.4, state mean earnings levels at the midpoint of the average-aged worker's career increase as people achieve higher levels of education. The differences between state earnings levels define the incremental benefits of moving from one education level to the next.

A key component in determining the CTE students' return on investment is the value of their future benefits stream; i.e., what they can expect to earn in return for the investment they make in education. We calculate the future benefits stream to the colleges' FY 2019-20 CTE students first by determining their average annual increase in earnings, equal to \$140.3 million. This value represents the higher wages that accrue to CTE students at the midpoint of their careers and is calculated based on the marginal wage increases of the CHEs that CTE students complete while attending the colleges. Using the state of California earnings, the marginal wage increase per CHE is \$144. For a full description of the methodology used to derive the \$140.3 million, see Appendix 7.

The second step is to project the \$140.3 million annual increase in earnings into the future, for as long as CTE students remain in the workforce. We do this using the Mincer function to predict the change in earnings at each point in an individual's working career.³⁷ The Mincer function originated from Mincer's seminal work on human capital (1958). The function estimates earnings using an individual's years of education and post-schooling experience. While some have criticized Mincer's earnings function, it is still upheld in recent data and has served as the foundation for a variety of research pertaining to labor economics. Card (1999 and 2001) addresses a number of these criticisms using U.S. based research over the last three decades and concludes that any upward bias in the Mincer parameters is on the order of 10% or less. We use state-specific and education level-specific Mincer coefficients. To account for any upward bias, we incorporate a 10% reduction in our projected earnings, otherwise known as the ability bias. With the \$140.3 million representing the CTE students' higher earnings at the midpoint of their careers, we apply scalars from the Mincer function to yield a stream of projected future benefits that gradually increase from the time CTE students enter the workforce, peak shortly after the career midpoint, and then dampen slightly as students approach retirement at age 67. This earnings stream appears in Column 2 of Table 3.2.

As shown in Table 3.2, the \$140.3 million in gross higher earnings occurs around Year 12, which is the approximate midpoint of the CTE students' future working careers given the average age of the student population and an assumed retirement age of 67. In accordance with the Mincer function, the gross higher earnings that accrue to students in the years leading up to the midpoint are less than \$140.3 million and the gross higher earnings in the years after the midpoint are greater than \$140.3 million.



37 Appendix 7 provides more information on the Mincer function and how it is used to predict future earnings growth.

Table 3.2: PROJECTED BENEFITS AND COSTS, STUDENT PERSPECTIVE

1	2	3	4	5	6
Year	Gross higher earnings to students (millions)	% active in workforce*	Net higher earnings to students (millions)	Student costs (millions)	Net cash flow (millions)
0	\$112.4	8%	\$8.6	\$445.8	-\$437.2
1	\$117.9	17%	\$20.1	\$0.3	\$19.8
2	\$123.4	25%	\$31.1	\$0.3	\$30.8
3	\$128.9	41%	\$52.9	\$0.3	\$52.7
4	\$134.4	65%	\$87.5	\$0.3	\$87.2
5	\$139.8	96%	\$133.6	\$0.3	\$133.3
6	\$145.2	95%	\$138.5	\$0.3	\$138.2
7	\$150.4	95%	\$143.3	\$0.3	\$143.0
8	\$155.5	95%	\$147.9	\$0.3	\$147.6
9	\$160.4	95%	\$152.4	\$0.3	\$152.1
10	\$165.2	95%	\$156.6	\$0.3	\$156.3
11	\$169.7	95%	\$160.6	\$0.2	\$160.4
12	\$174.0	94%	\$164.4	\$0.2	\$164.1
13	\$178.1	94%	\$167.8	\$0.1	\$167.7
14	\$181.8	94%	\$171.0	\$0.1	\$170.9
15	\$185.3	94%	\$173.9	\$0.1	\$173.7
16	\$188.4	94%	\$176.3	\$0.0	\$176.3
17	\$191.2	93%	\$178.5	\$0.0	\$178.5
18	\$193.7	93%	\$180.2	\$0.0	\$180.2
19	\$195.7	93%	\$181.5	\$0.0	\$181.5
20	\$197.4	92%	\$182.5	\$0.0	\$182.5
21	\$198.6	92%	\$183.0	\$0.0	\$183.0
22	\$199.5	92%	\$183.0	\$0.0	\$183.0
23	\$189.8	92%	\$174.4	\$0.0	\$174.4
24	\$190.2	91%	\$174.0	\$0.0	\$174.0
25	\$190.1	91%	\$173.1	\$0.0	\$173.1
26	\$189.7	91%	\$171.8	\$0.0	\$171.8
27	\$188.8	90%	\$170.0	\$0.0	\$170.0
28	\$178.2	90%	\$160.3	\$0.0	\$160.3
29	\$176.8	89%	\$158.0	\$0.0	\$158.0
30	\$175.1	89%	\$155.4	\$0.0	\$155.4
31	\$173.1	88%	\$152.4	\$0.0	\$152.4
32	\$170.6	87%	\$149.1	\$0.0	\$149.1
33	\$167.9	87%	\$145.4	\$0.0	\$145.4
34	\$164.8	86%	\$141.4	\$0.0	\$141.4
35	\$161.5	85%	\$137.1	\$0.0	\$137.1
36	\$157.8	84%	\$132.6	\$0.0	\$132.6
37	\$129.8	84%	\$108.5	\$0.0	\$108.5
38	\$126.5	83%	\$104.5	\$0.0	\$104.5
39	\$107.9	82%	\$88.3	\$0.0	\$88.3
40	\$50.9	82%	\$41.8	\$0.0	\$41.8
41	\$19.8	83%	\$16.5	\$0.0	\$16.5
42	\$19.3	82%	\$15.8	\$0.0	\$15.8
43	\$18.7	81%	\$15.2	\$0.0	\$15.2
Present value			\$2,502.0	\$448.6	\$2,053.5

* Includes the "settling-in" factors and attrition.
 Percentages reflect aggregate values for all colleges and are subject to fluctuations due to the colleges' varying time horizons.
 Source: Emsi Burning Glass impact model.



Benefit-cost ratio

5.6



Internal rate of return

21.2%



Payback period (years)

5.8



The final step in calculating the CTE students' future benefits stream is to net out the potential benefits generated by students who are either not yet active in the workforce or who leave the workforce over time. This adjustment appears in Column 3 of Table 3.2 and represents the percentage of the FY 2019-20 CTE student population that will be employed in the workforce in a given year. Note that the percentages in the first five years of the time horizon are relatively lower than those in subsequent years. This is because many CTE students delay their entry into the workforce, either because they are still enrolled at the colleges or because they are unable to find a job immediately upon graduation. Accordingly, we apply a set of “settling-in” factors to account for the time needed by students to find employment and settle into their careers. As discussed in Chapter 2, settling-in factors delay the onset of the benefits by one to three years for CTE students who graduate with a certificate or a degree and by one to five years for degree-seeking students who do not complete during the analysis year.

Beyond the first five years of the time horizon, CTE students will leave the workforce for any number of reasons, whether death, retirement, or unemployment. We estimate the rate of attrition using the same data and assumptions applied in the calculation of the attrition rate in the economic impact analysis of Chapter 2.³⁸ The likelihood of leaving the workforce increases as CTE students age, so the attrition rate is more aggressive near the end of the time horizon than in the beginning. Column 4 of Table 3.2 shows the net higher earnings to CTE students after accounting for both the settling-in patterns and attrition.

Return on investment for students

Having estimated the CTE students' costs and their future benefits stream, the next step is to discount the results to the present to reflect the time value of money. For the CTE student perspective we assume a discount rate of 4.5% (see below). Because CTE students tend to rely upon debt to pay for their educations—i.e. they are negative savers—their discount rate is based upon student loan interest



Discount rate

The discount rate is a rate of interest that converts future costs and benefits to present values. For example, \$1,000 in higher earnings realized 30 years in the future is worth much less than \$1,000 in the present. All future values must therefore be expressed in present value terms in order to compare them with investments (i.e., costs) made today. The selection of an appropriate discount rate, however, can become an arbitrary and controversial undertaking. As suggested in economic theory, the discount rate should reflect the investor's opportunity cost of capital, i.e., the rate of return one could reasonably expect to obtain from alternative investment schemes. In this study we assume a 4.5% discount rate from the student perspective and a 0.4% discount rate from the perspectives of taxpayers and society.

³⁸ See the discussion of the alumni impact in Chapter 2. The main sources for deriving the attrition rate are the National Center for Health Statistics, the Social Security Administration, and the Bureau of Labor Statistics. Note that we do not account for migration patterns in the student investment analysis because the higher earnings that students receive as a result of their education will accrue to them regardless of where they find employment.



rates.³⁹ In Appendix 2, we conduct a sensitivity analysis of this discount rate. The present value of the benefits is then compared to CTE student costs to derive the investment analysis results, expressed in terms of a benefit-cost ratio, rate of return, and payback period. The investment is feasible if returns match or exceed the minimum threshold values; i.e., a benefit-cost ratio greater than 1.0, a rate of return that exceeds the discount rate, and a reasonably short payback period.

In Table 3.2, the net higher earnings of CTE students yield a cumulative discounted sum of approximately \$2.5 billion, the present value of all of the future earnings increments (see the bottom section of Column 4). This may also be interpreted as the gross capital asset value of the CTE students' higher earnings stream. In effect, the aggregate FY 2019-20 CTE student body is rewarded for its investment in SDICCC's CTE with a capital asset valued at \$2.5 billion.

The CTE students' cost of attending the colleges is shown in Column 5 of Table 3.2, equal to a present value of \$448.6 million. Comparing the cost with the present value of benefits yields a student benefit-cost ratio of 5.6 (equal to \$2.5 billion in benefits divided by \$448.6 million in costs).

Another way to compare the same benefits stream and associated cost is to compute the rate of return. The rate of return indicates the interest rate that a bank would have to pay a depositor to yield an equally attractive stream of future payments.⁴⁰ Table 3.2 shows CTE students of the colleges earning average returns of 21.2% on their investment of time and money. This is a favorable return compared, for example, to approximately 1% on a standard bank savings account, or 10% on stocks and bonds (30-year average return).

SDICCC's CTE students see an average rate of return of **21.2%** for their investment of time and money.

Note that returns reported in this study are real returns, not nominal. When a bank promises to pay a certain rate of interest on a savings account, it employs an implicitly nominal rate. Bonds operate in a similar manner. If it turns out that the inflation rate is higher than the stated rate of return, then money is lost in real terms. In contrast, a real rate of return is on top of inflation. For example, if inflation is running at 3% and a nominal percentage of 5% is paid, then the real rate of return on the investment is only 2%. In Table 3.2, the 21.2% student rate of return is a real rate. With an inflation rate of 2.1% (the average rate reported over the past 20 years as per the U.S. Department of Commerce, Consumer Price Index), the corresponding nominal rate of return is 23.3%, higher than what is reported in Table 3.2.

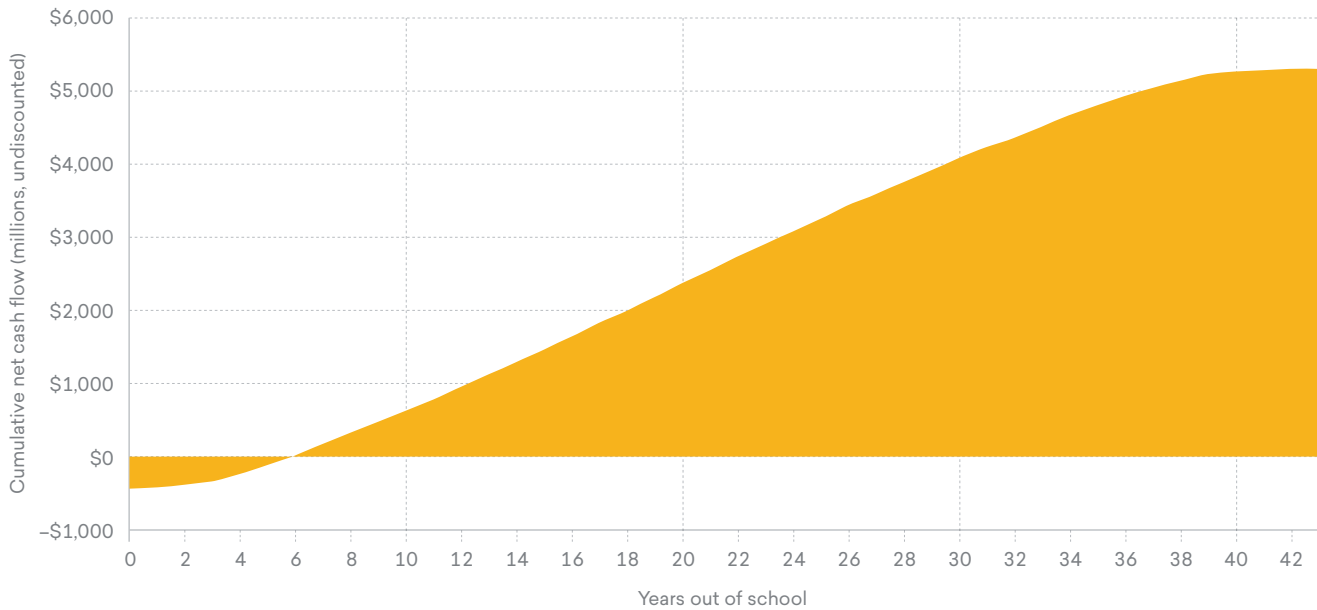
39 The student discount rate is derived from the baseline forecasts for the 10-year Treasury rate published by the Congressional Budget Office. See the Congressional Budget Office, Student Loan and Pell Grant Programs—March 2020 Baseline. <https://www.cbo.gov/system/files/2020-03/51310-2020-03-studentloan.pdf>.

40 Rates of return are computed using the familiar internal rate-of-return calculation. Note that, with a bank deposit or stock market investment, the depositor puts up a principal, receives in return a stream of periodic payments, and then recovers the principal at the end. Someone who invests in education, on the other hand, receives a stream of periodic payments that include the recovery of the principal as part of the periodic payments, but there is no principal recovery at the end. These differences notwithstanding comparable cash flows for both bank and education investors yield the same internal rate of return.



The payback period is defined as the length of time it takes to entirely recoup the initial investment.⁴¹ Beyond that point, returns are what economists would call pure costless rent. As indicated in Table 3.2, CTE students at the colleges see, on average, a payback period of 5.8 years, meaning 5.8 years after their initial investment of foregone earnings and out-of-pocket costs, they will have received enough higher future earnings to fully recover those costs (Figure 3.1).

Figure 3.1: STUDENT PAYBACK PERIOD



Source: Emsi Burning Glass impact model.



41 Payback analysis is generally used by the business community to rank alternative investments when safety of investments is an issue. Its greatest drawback is it does not consider the time value of money. The payback period is calculated by dividing the cost of the investment by the net return per period. In this study, the cost of the investment includes tuition and fees plus the opportunity cost of time; it does not take into account student living expenses.



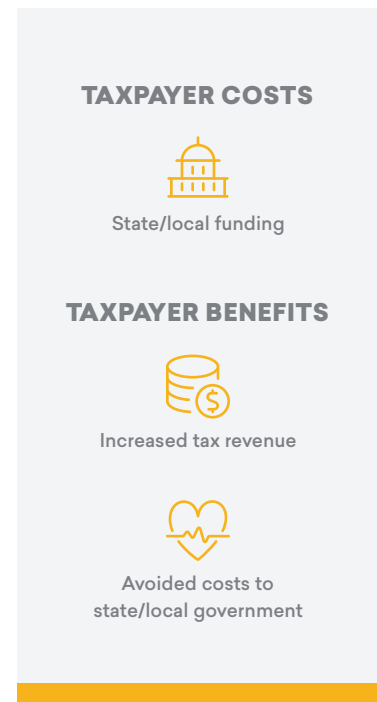
From the taxpayer perspective, the pivotal step is to determine the public benefits that specifically accrue to state and local government. For example, benefits resulting from earnings growth are limited to increased state and local tax payments. Similarly, savings related to improved health, reduced crime, and fewer welfare and unemployment claims, discussed below, are limited to those received strictly by state and local government. In all instances, benefits to private residents, local businesses, or the federal government are excluded.

Growth in state tax revenues

As a result of their time at the colleges, CTE students earn more because of the skills they learned while attending the colleges, and businesses earn more because student skills make capital more productive (buildings, machinery, and everything else). This in turn raises profits and other business property income. Together, increases in labor and non-labor (i.e., capital) income are considered the effect of a skilled workforce. These in turn increase tax revenues since state and local government is able to apply tax rates to higher earnings.

Estimating the effect of SDICCC's CTE on increased tax revenues begins with the present value of the CTE students' future earnings stream, which is displayed in Column 4 of Table 3.2. To these net higher earnings, we apply a multiplier derived from Emsi Burning Glass's MR-SAM model to estimate the added labor income created in the state as CTE students and businesses spend their higher earnings.⁴² As labor income increases, so does non-labor income, which consists of monies gained through investments. To calculate the growth in non-labor income, we multiply the increase in labor income by a ratio of the California gross state product to total labor income in the state. We also include the spending impacts discussed in Chapter 2 that were created in FY 2019-20 from CTE operations, construction, and student spending, measured at the state level. To each of these, we apply the prevailing tax rates so we capture only the tax revenues attributable to state and local government from this additional revenue.

42 For a full description of the Emsi Burning Glass MR-SAM model, see Appendix 6.



Not all of these tax revenues may be counted as benefits to the state, however. Some CTE students leave the state during the course of their careers, and the higher earnings they receive as a result of their education leaves the state with them. To account for this dynamic, we combine CTE student settlement data from the colleges with data on migration patterns from the Internal Revenue Service to estimate the number of students who will leave the state workforce over time.

We apply another reduction factor to account for the CTE students' alternative education opportunities. This is the same adjustment that we use in the calculation of the alumni impact in Chapter 2 and is designed to account for the counterfactual scenario where the colleges' CTE do not exist. The assumption in this case is that any benefits generated by students who could have received an education even without the colleges' CTE cannot be counted as new benefits to society. For this analysis, we assume an alternative education variable of 15%, meaning that 15% of the CTE student population at the colleges would have generated benefits anyway even without the colleges' CTE. For more information on the alternative education variable, see Appendix 8.

We apply a final adjustment factor to account for the "shutdown point" that nets out benefits that are not directly linked to the state and local government costs of supporting the colleges' CTE. As with the alternative education variable discussed under the CTE alumni impact, the purpose of this adjustment is to account for counterfactual scenarios. In this case, the counterfactual scenario is where state and local government funding for SDICCC's CTE did not exist and the colleges' CTE had to derive the revenue elsewhere. To estimate this shutdown point, we apply a sub-model that simulates the students' demand curve for education by reducing state and local support to zero and progressively increasing student tuition and fees. As student tuition and fees increase, enrollment declines. For SDICCC's CTE, the shutdown point adjustment is 0%, meaning that the colleges' CTE could not operate without taxpayer support. As such, no reduction applies. For more information on the theory and methodology behind the estimation of the shutdown point, see Appendix 10.

After adjusting for attrition, alternative education opportunities, and the shutdown point, we calculate the present value of the future added tax revenues that occur in the state, equal to \$906.1 million. Recall from the discussion of the CTE student return on investment that the present value represents the sum of the future benefits that accrue each year over the course of the time horizon, discounted to current year dollars to account for the time value of money. Given that the stakeholder in this case is the public sector, we use the discount rate of 0.4%. This is the real treasury interest rate recommended by the Office of Management and Budget (OMB) for 30-year investments, and in Appendix 2, we conduct a sensitivity analysis of this discount rate.⁴³



43 Office of Management and Budget. "Discount Rates for Cost-Effectiveness, Lease Purchase, and Related Analyses." *Real Interest Rates on Treasury Notes and Bonds of Specified Maturities (in Percent)*. Last modified November 2020. <https://www.whitehouse.gov/wp-content/uploads/2020/12/discount-history.pdf>.

Government savings

In addition to the creation of higher tax revenues to the state and local government, education is statistically associated with a variety of lifestyle changes that generate social savings, also known as external or incidental benefits of education.

These represent the avoided costs to the government that otherwise would have been drawn from public resources absent the education provided by SDICCC's CTE. Government savings appear in Figure 3.2 and Table 3.3 and break down into three main categories: 1) health savings, 2) crime savings, and 3) income assistance savings. Health savings include avoided medical costs that would have otherwise been covered by state and local government.

Crime savings consist of avoided costs to the justice system (i.e., police protection, judicial and legal, and corrections). Income assistance benefits comprise avoided costs due to the reduced number of welfare and unemployment insurance claims.

The model quantifies government savings by calculating the probability at each education level that individuals will have poor health, commit crimes, or claim welfare and unemployment benefits. Deriving the probabilities involves assembling data from a variety of studies and surveys analyzing the correlation between education and health, crime, and income assistance at the national and state level. We spread the probabilities across the education ladder and multiply the marginal differences by the number of CTE students who achieved CHEs at each step. The sum of these marginal differences counts as the upper bound measure of the number of CTE students who, due to the education they received at the colleges, will not have poor health, commit crimes, or demand income assistance. We dampen these results by the ability bias adjustment discussed earlier in the student perspective section and in Appendix 7 to account for factors (besides education) that influence individual behavior. We then multiply the marginal effects of education times the associated costs of health, crime, and income assistance.⁴⁴ Finally, we apply the same adjustments for attrition, alternative

In addition to the creation of **higher tax revenues** to the state and local government, education is statistically associated with a variety of lifestyle changes that generate **social savings**.

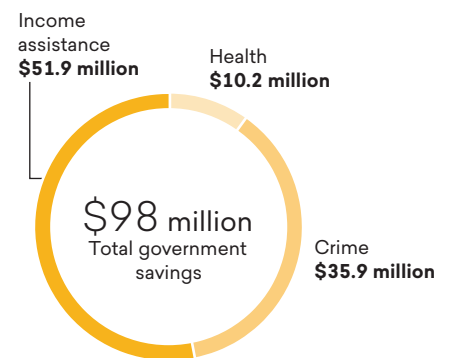
Table 3.3: PRESENT VALUE OF ADDED TAX REVENUE AND GOVERNMENT SAVINGS (THOUSANDS)

Added tax revenue	\$906,112
Government savings	
Health-related savings	\$10,190
Crime-related savings	\$35,942
Income assistance savings	\$51,870
Total government savings	\$98,002
Total taxpayer benefits	\$1,004,114

Source: Emsi Burning Glass impact model.

44 For a full list of the data sources used to calculate the social externalities, see the Resources and References section. See also Appendix 11 for a more in-depth description of the methodology.

Figure 3.2: PRESENT VALUE OF GOVERNMENT SAVINGS



Source: Emsi Burning Glass impact model.



education, and the shutdown point to derive the net savings to the government. Total government savings appear in Figure 3.2 and sum to \$98 million.

Table 3.3 displays all benefits to taxpayers. The first row shows the added tax revenues created in the state, equal to \$906.1 million, from CTE students' higher earnings, increases in non-labor income, and spending impacts. The sum of the government savings and the added income in the state is \$1 billion, as shown in the bottom row of Table 3.3. These savings continue to accrue in the future as long as the FY 2019-20 CTE student population of the colleges remains in the workforce.

Return on investment for taxpayers

Taxpayer costs are reported in Table 3.4 and come to \$378 million, equal to the contribution of state and local government to SDICCC's CTE. In return for their public support, taxpayers are rewarded with an investment benefit-cost ratio of 2.7 (= \$1 billion ÷ \$378 million), indicating a profitable investment.

At 7.0%, the rate of return to state and local taxpayers is favorable. Given that the stakeholder in this case is the public sector, we use the discount rate of 0.4%, the real treasury interest rate recommended by the Office of Management and Budget for 30-year investments.⁴⁵ This is the return governments are assumed to be able to earn on generally safe investments of unused funds, or alternatively, the interest rate for which governments, as relatively safe borrowers, can obtain funds. A rate of return of 0.4% would mean that the colleges' CTE just pays its own way. In principle, governments could borrow monies used to support SDICCC's CTE and repay the loans out of the resulting added taxes and reduced government expenditures. A rate of return of 7.0%, on the other hand, means that SDICCC's CTE not only pays its own way, but also generates a surplus that the state and local government can use to fund other programs. It is unlikely that other government programs could make such a claim.




A rate of return of **7.0%** means that SDICCC's CTE not only pays its own way, but also generates a surplus that the state and local government can use to fund other programs.

⁴⁵ Office of Management and Budget. "Discount Rates for Cost-Effectiveness, Lease Purchase, and Related Analyses." *Real Interest Rates on Treasury Notes and Bonds of Specified Maturities (in Percent)*. Last modified November 2020. <https://www.whitehouse.gov/wp-content/uploads/2020/12/discount-history.pdf>.

Table 3.4: PROJECTED BENEFITS AND COSTS, TAXPAYER PERSPECTIVE

1	2	3	4
Year	Benefits to taxpayers (millions)	State and local government costs (millions)	Net cash flow (millions)
0	\$41.6	\$378.0	-\$336.4
1	\$4.6	\$0.0	\$4.6
2	\$7.0	\$0.0	\$7.0
3	\$11.8	\$0.0	\$11.8
4	\$19.4	\$0.0	\$19.4
5	\$29.3	\$0.0	\$29.3
6	\$29.9	\$0.0	\$29.9
7	\$30.4	\$0.0	\$30.4
8	\$31.0	\$0.0	\$31.0
9	\$31.5	\$0.0	\$31.5
10	\$32.0	\$0.0	\$32.0
11	\$32.4	\$0.0	\$32.4
12	\$32.8	\$0.0	\$32.8
13	\$33.1	\$0.0	\$33.1
14	\$33.4	\$0.0	\$33.4
15	\$33.6	\$0.0	\$33.6
16	\$33.7	\$0.0	\$33.7
17	\$33.7	\$0.0	\$33.7
18	\$33.7	\$0.0	\$33.7
19	\$33.5	\$0.0	\$33.5
20	\$33.4	\$0.0	\$33.4
21	\$33.1	\$0.0	\$33.1
22	\$32.7	\$0.0	\$32.7
23	\$30.8	\$0.0	\$30.8
24	\$30.3	\$0.0	\$30.3
25	\$29.8	\$0.0	\$29.8
26	\$29.3	\$0.0	\$29.3
27	\$28.6	\$0.0	\$28.6
28	\$26.7	\$0.0	\$26.7
29	\$26.0	\$0.0	\$26.0
30	\$25.2	\$0.0	\$25.2
31	\$24.4	\$0.0	\$24.4
32	\$23.5	\$0.0	\$23.5
33	\$22.6	\$0.0	\$22.6
34	\$21.7	\$0.0	\$21.7
35	\$20.8	\$0.0	\$20.8
36	\$19.8	\$0.0	\$19.8
37	\$15.9	\$0.0	\$15.9
38	\$15.1	\$0.0	\$15.1
39	\$12.6	\$0.0	\$12.6
40	\$5.7	\$0.0	\$5.7
41	\$2.3	\$0.0	\$2.3
42	\$2.1	\$0.0	\$2.1
43	\$2.0	\$0.0	\$2.0
Present value	\$1,004.1	\$378.0	\$626.1

Numbers reflect aggregate values for all colleges and are subject to fluctuations due to the colleges' varying time horizons.
Source: Emsi Burning Glass impact model.

	Benefit-cost ratio 2.7		Internal rate of return 7.0%		Payback period (years) 13.3
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California benefits from the education that SDICCC's CTE provides through the earnings that CTE students create in the state and through the savings that they generate through their improved lifestyles. To receive these benefits, however, members of society must pay money and forego services that they otherwise would have enjoyed if SDICCC's CTE did not exist. Society's investment in the colleges' CTE stretches across a number of investor groups, from students to employers to taxpayers. We weigh the benefits generated by SDICCC's CTE to these investor groups against the total social costs of generating those benefits. The total social costs include all colleges' CTE expenditures, all CTE student expenditures (including interest on student loans) less tuition and fees, and all student opportunity costs, totaling a present value of \$884.1 million.

On the benefits side, any benefits that accrue to California as a whole—including CTE students, employers, taxpayers, and anyone else who stands to benefit from the activities of SDICCC's CTE—are counted as benefits under the social perspective. We group these benefits under the following broad headings: 1) increased earnings in the state, and 2) social externalities stemming from improved health, reduced crime, and reduced unemployment in the state (see the Beekeeper Analogy box for a discussion of externalities). Both of these benefits components are described more fully in the following sections.

Growth in state economic base

In the process of absorbing the newly acquired skills of CTE students who attend the colleges, not only does the productivity of the California workforce increase, but so does the productivity of its physical capital and assorted infrastructure. CTE students earn more because of the skills they learned while attending the colleges, and businesses earn more because CTE student skills make capital more productive (buildings, machinery, and everything else). This in turn raises profits and other business property income. Together, increases in labor and non-labor (i.e., capital) income are considered the effect of a skilled workforce.

Estimating the effect of SDICCC's CTE on the state's economic base follows a similar process used when calculating increased tax revenues in the taxpayer perspective. However, instead of looking at just the tax revenue portion, we include

SOCIAL COSTS



SDICCC's CTE expenditures



Student out-of-pocket expenses



Student opportunity costs

SOCIAL BENEFITS



Increased state earnings



Avoided costs to society



Beekeeper analogy

Beekeepers provide a classic example of positive externalities (sometimes called “neighborhood effects”). The beekeeper’s intention is to make money selling honey. Like any other business, receipts must at least cover operating costs. If they don’t, the business shuts down.

But from society’s standpoint, there is more. Flowers provide the nectar that 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 activities that produce positive externalities, such as beekeeping.

Educational institutions are like beekeepers. While their principal

aim is to provide education and raise people’s earnings, in the process they create an array of external benefits. Students’ health and lifestyles are improved, and society indirectly benefits just as orchard owners indirectly benefit from beekeepers. Aiming at a more complete accounting of the benefits generated by education, the model tracks and accounts for many of these external social benefits.



all of the added earnings and business output. First, we calculate the CTE students’ future higher earnings stream. We factor in student attrition and alternative education opportunities to arrive at net higher earnings. We again apply multipliers derived from Emsi Burning Glass’s MR-SAM model to estimate the added labor and non-labor income created in the state as CTE students and businesses spend their higher earnings and as businesses generate additional profits from this increased output (added student and business income in Figure 3.3.). We also include the CTE operations, construction, and student spending impacts discussed in Chapter 2 that were created in FY 2019-20, measured at the state level (added income from colleges’ CTE activities in Figure 3.3.). The shutdown point does not apply to the growth of the economic base because the social perspective captures not only the state and local taxpayer support to the colleges’ CTE, but also the support from the CTE students and other non-government sources.

Using this process, we calculate the present value of the future added income that occurs in the state, equal to \$12.1 billion. Recall from the discussion of the CTE student and taxpayer return on investment that the present value represents the sum of the future benefits that accrue each year over the course of the time horizon, discounted to current year dollars to account for the time value of money. As stated in the taxpayer perspective, given that the stakeholder in this case is the public sector, we use the discount rate of 0.4%.

Social savings

Similar to the government savings discussed above, society as a whole sees savings due to external or incidental benefits of education. These represent the avoided costs that otherwise would have been drawn from private and public resources absent the education provided by the colleges’ CTE. Social benefits appear in Table 3.5 and break down into three main categories: 1) health savings, 2) crime savings, and 3) income assistance savings. These are similar to the categories from the taxpayer perspective above, although health savings now also include lost productivity and other effects associated with smoking, alcohol dependence,





obesity, depression, and drug abuse. In addition to avoided costs to the justice system, crime savings also consist of avoided victim costs and benefits stemming from the added productivity of individuals who otherwise would have been incarcerated. Income assistance savings are comprised of the avoided government costs due to the reduced number of welfare and unemployment insurance claims.

Table 3.5 displays the results of the analysis. The first row shows the increased economic base in the state, equal to \$12.1 billion, from CTE students' higher earnings and their multiplier effects, increases in non-labor income, and spending impacts. Social savings appear next, beginning with a breakdown of savings related to health. These include savings due to a reduced demand for medical treatment and social services, improved worker productivity and reduced absenteeism, and a reduced number of vehicle crashes and fires induced by alcohol or smoking-related incidents. Although the prevalence of these health conditions generally declines as individuals attain higher levels of education, prevalence rates are sometimes higher for individuals with certain levels of education. For example, adults with college degrees may be more likely to spend more on alcohol and become dependent on alcohol. Thus, in some cases the social savings associated with a health factor can be negative. Nevertheless, the overall health savings for society are positive, amounting to \$60.5 million. Crime savings amount to \$39.3 million, including savings associated with a reduced number of crime victims, added worker productivity, and reduced expenditures for police and law enforcement, courts and administration of justice, and corrective services. Finally, the present value of the savings related to income assistance amount to

Table 3.5: PRESENT VALUE OF THE FUTURE INCREASED ECONOMIC BASE AND SOCIAL SAVINGS IN THE STATE (THOUSANDS)

Increased economic base	\$12,061,184
Social savings	
Health	
Smoking	\$86,289
Alcohol dependence	-\$25,192
Obesity	\$26,586
Depression	-\$27,052
Drug abuse	-\$91
Total health savings*	\$60,539
Crime	
Criminal justice system savings	\$35,654
Crime victim savings	\$435
Added productivity	\$3,207
Total crime savings	\$39,296
Income assistance	
Welfare savings	\$43,641
Unemployment savings	\$8,500
Total income assistance savings	\$52,141
Total social savings	\$151,976
Total, increased economic base + social savings	\$12,213,160

* In some cases, health savings may be negative. This is due to increased prevalence rates at certain education levels.
Source: Emsi Burning Glass impact model.

\$52.1 million, stemming from a reduced number of persons in need of welfare or unemployment benefits. All told, social savings amounted to \$152 million in benefits to communities and citizens in California.

The sum of the social savings and the increased state economic base is \$12.2 billion, as shown in the bottom row of Table 3.5 and in Figure 3.3. These savings accrue in the future as long as the FY 2019-20 CTE student population of the colleges remains in the workforce.

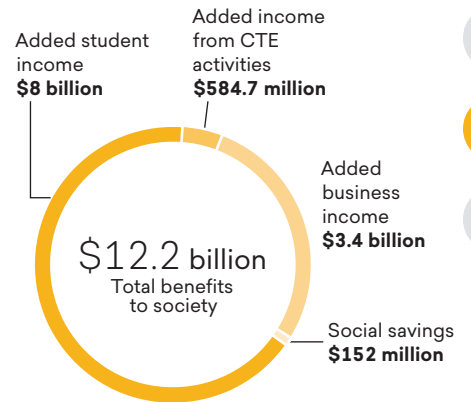
Return on investment for society

Table 3.6 presents the stream of benefits accruing to the California society and the total social costs of generating those benefits. Comparing the present value of the benefits and the social costs, we have a benefit-cost ratio of 13.8. This means that for every dollar invested in an education from SDICCC’s CTE, whether it is the money spent on operations of the colleges’ CTE or money spent by CTE students on tuition and fees, an average of \$13.80 in benefits will accrue to society in California.⁴⁶

With and without social savings

Earlier in this chapter, social benefits attributable to education (improved health, reduced crime, and reduced demand for income assistance) were defined as externalities that are incidental to the operations of SDICCC’s CTE. Some would question the legitimacy of including these benefits in the calculation of rates of return to education, arguing that only the tangible benefits (higher earnings) should be counted. Table 3.4 and Table 3.6 are inclusive of social benefits reported as attributable to SDICCC’s CTE. Recognizing the other point of view, Table 3.7 shows rates of return for both the taxpayer and social perspectives exclusive of social benefits. As indicated, returns are still above threshold values (a benefit-cost ratio greater than 1.0 and a rate of return greater than 0.4%), confirming that taxpayers receive value from investing in SDICCC’s CTE.

Figure 3.3: PRESENT VALUE OF BENEFITS TO SOCIETY



Source: Emsi Burning Glass impact model.

Table 3.7: TAXPAYER AND SOCIAL PERSPECTIVES WITH AND WITHOUT SOCIAL SAVINGS

	Including social savings	Excluding social savings
Taxpayer perspective		
Net present value (millions)	\$626.1	\$528.1
Benefit-cost ratio	2.7	2.4
Internal rate of return	7.0%	6.1%
Payback period (no. of years)	13.3	15.7
Social perspective		
Net present value (millions)	\$11,329.1	\$11,177.1
Benefit-cost ratio	13.8	13.6



Source: Emsi Burning Glass impact model.

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

Table 3.6: PROJECTED BENEFITS AND COSTS, SOCIAL PERSPECTIVE

1	2	3	4
Year	Benefits to society (millions)	Social costs (millions)	Net cash flow (millions)
0	\$610.6	\$880.5	-\$269.9
1	\$57.4	\$0.3	\$57.1
2	\$87.2	\$0.3	\$86.9
3	\$147.8	\$0.3	\$147.5
4	\$242.4	\$0.3	\$242.1
5	\$365.8	\$0.3	\$365.5
6	\$371.7	\$0.3	\$371.4
7	\$377.2	\$0.3	\$376.9
8	\$382.6	\$0.3	\$382.3
9	\$387.6	\$0.3	\$387.3
10	\$391.9	\$0.3	\$391.7
11	\$395.6	\$0.2	\$395.4
12	\$398.7	\$0.2	\$398.5
13	\$401.1	\$0.1	\$400.9
14	\$402.7	\$0.1	\$402.6
15	\$403.5	\$0.1	\$403.4
16	\$403.6	\$0.0	\$403.6
17	\$402.8	\$0.0	\$402.8
18	\$401.2	\$0.0	\$401.2
19	\$398.9	\$0.0	\$398.9
20	\$395.7	\$0.0	\$395.7
21	\$391.7	\$0.0	\$391.7
22	\$387.0	\$0.0	\$387.0
23	\$363.4	\$0.0	\$363.4
24	\$358.1	\$0.0	\$358.1
25	\$352.1	\$0.0	\$352.1
26	\$345.4	\$0.0	\$345.4
27	\$338.0	\$0.0	\$338.0
28	\$314.6	\$0.0	\$314.6
29	\$306.9	\$0.0	\$306.9
30	\$298.6	\$0.0	\$298.6
31	\$289.7	\$0.0	\$289.7
32	\$280.5	\$0.0	\$280.5
33	\$270.8	\$0.0	\$270.8
34	\$260.8	\$0.0	\$260.8
35	\$250.5	\$0.0	\$250.5
36	\$239.9	\$0.0	\$239.9
37	\$193.0	\$0.0	\$193.0
38	\$184.2	\$0.0	\$184.2
39	\$154.1	\$0.0	\$154.1
40	\$70.1	\$0.0	\$70.1
41	\$27.6	\$0.0	\$27.6
42	\$26.3	\$0.0	\$26.3
43	\$25.0	\$0.0	\$25.0
Present value	\$12,213.2	\$884.1	\$11,329.1

Numbers reflect aggregate values for all colleges and are subject to fluctuations due to the colleges' varying time horizons.
Source: Emsi Burning Glass impact model.

	Benefit-cost ratio 13.8		Payback period (years) 2.9
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CHAPTER 4:

Conclusion





WHILE THE VALUE of SDICCC's CTE to San Diego County is larger than simply its economic impact, understanding the dollars and cents value is an important asset to understanding the colleges' CTE value as a whole. In order to fully assess SDICCC's CTE value to the county economy, this report has evaluated the colleges' CTE from the perspectives of economic impact analysis and investment analysis.

From an economic impact perspective, we calculated that SDICCC's CTE generates a total economic impact of **\$2.8 billion** in total added income for the county economy. This represents the sum of several different impacts, including:

- Operations spending impact (**\$416.6 million**);
- Construction spending impact (**\$2.4 million**);
- Student spending impact (**\$179.8 million**); and
- Alumni impact (**\$2.2 billion**).

The total impact of \$2.8 billion is equivalent to approximately **1.1%** of the total GRP of San Diego County and is equivalent to supporting **33,145 jobs**. For perspective, this means that **one out of every 61 jobs** in San Diego County is supported by the activities of the colleges' CTE and its students.

Since SDICCC's CTE activity represents an investment by various parties, including CTE students, taxpayers, and society as a whole, we also considered the colleges' CTE as an investment to see the value they provide to these investors. For each dollar invested by CTE students, taxpayers, and society, SDICCC's CTE offers a benefit of **\$5.60**, **\$2.70**, and **\$13.80**, respectively. These results indicate that SDICCC's CTE is an attractive investment to students with rates of return that exceed alternative investment opportunities. At the same time, the presence of the colleges' CTE expands the state economy and creates a wide range of positive social benefits that accrue to taxpayers and society in general within California.

Modeling the impact of the colleges' CTE is subject to many factors, the variability of which we considered in our sensitivity analysis (Appendix 2). With this variability accounted for, we present the findings of this study as a robust picture of the economic value of SDICCC's CTE.

One out of every 61 jobs in San Diego County is supported by the activities of SDICCC's CTE and its students.

Emsi Burning Glass provides colleges and universities with labor market data that help create better outcomes for students, businesses, and communities. Our data, which cover more than 99% of the U.S. workforce, are compiled from a wide variety of government sources, job postings, and online profiles and résumés. Hundreds of institutions use Emsi Burning Glass to align programs with regional needs, drive enrollment, connect students with in-demand careers, track their alumni's employment outcomes, and demonstrate their institution's economic impact on their region. Visit economicmodeling.com/higher-education to learn more or connect with us.

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APPENDIX 1: SAN DIEGO & IMPERIAL COUNTIES COMMUNITY COLLEGES

San Diego & Imperial Counties Community Colleges (SDICCC) include 10 institutions in San Diego and Imperial Counties. They employ thousands of educators and serve nearly 88,000 CTE students every year. The colleges work to provide educational services to local residents so that they can achieve their goals and enrich their lives, careers, and communities. For the purposes of this report, Imperial Valley College is not included in the economic value analysis.

Institution	Location
Cuyamaca College	El Cajon, CA
Grossmont College	El Cajon, CA
Imperial Valley College	Imperial, CA
MiraCosta College	Oceanside, CA
Palomar College	San Marcos, CA
San Diego City College	San Diego, CA
San Diego College of Continuing Education	San Diego, CA
San Diego Mesa College	San Diego, CA
San Diego Miramar College	San Diego, CA
Southwestern College	Chula Vista, CA



Sensitivity analysis measures the extent to which a model's outputs are affected by hypothetical changes in the background data and assumptions. This is especially important when those variables are inherently uncertain. This analysis allows us to identify a plausible range of potential results that would occur if the value of any of the variables is in fact different from what was expected. In this chapter we test the sensitivity of the model to the following input factors: 1) the alternative education variable, 2) the labor import effect variable, 3) the student employment variables, 4) the discount rate, and 5) the retained student variable.

Alternative education variable

The alternative education variable (15%) accounts for the counterfactual scenario where students would have to seek a similar education elsewhere absent the colleges' CTE. Given the difficulty in accurately specifying the alternative education variable, we test the sensitivity of the taxpayer and social investment analysis results to its magnitude. Variations in the alternative education assumption are calculated around base case results listed in the middle column of Table A2.1. Next, the model brackets the base case assumption on either side with a plus or minus 10%, 25%, and 50% variation in assumptions. Analyses are then repeated introducing one change at a time, holding all other variables constant. For example, an increase of 10% in the alternative education assumption (from 15% to 17%) reduces the taxpayer perspective rate of return from 7.0% to 6.9%. Likewise, a decrease of 10% (from 15% to 14%) in the assumption increases the rate of return from 7.0% to 7.2%.

Table A2.1: SENSITIVITY ANALYSIS OF ALTERNATIVE EDUCATION VARIABLE, TAXPAYER AND SOCIAL PERSPECTIVES

% variation in assumption	-50%	-25%	-10%	Base case	10%	25%	50%
Alternative education variable	8%	11%	14%	15%	17%	19%	23%
Taxpayer perspective							
Net present value (millions)	\$715	\$671	\$644	\$626	\$608	\$582	\$537
Rate of return	7.8%	7.4%	7.2%	7.0%	6.9%	6.6%	6.2%
Benefit-cost ratio	2.9	2.8	2.7	2.7	2.6	2.5	2.4
Social perspective							
Net present value (millions)	\$12,407	\$11,868	\$11,545	\$11,329	\$11,114	\$10,790	\$10,251
Benefit-cost ratio	15.0	14.4	14.1	13.8	13.6	13.2	12.6

Based on this sensitivity analysis, the conclusion can be drawn that SDICCC's CTE investment analysis results from the taxpayer and social perspectives are not very sensitive to relatively large variations in the alternative education variable. As indicated, results are still above their threshold levels (net present value greater than zero, benefit-cost ratio greater than 1.0, and rate of return greater than the discount rate of 0.4%), even when the alternative education assumption is increased by as much as 50% (from 15% to 23%). The conclusion is that although the assumption is difficult to specify, its impact on overall investment analysis results for the taxpayer and social perspectives is not very sensitive.

Labor import effect variable

The labor import effect variable only affects the alumni impact calculation in Table 2.7. In the model we assume a labor import effect variable of 50%, which means that 50% of the county's labor demands would have been satisfied without the presence of SDICCC's CTE. In other words, businesses that hired the colleges' CTE students could have substituted some of these workers with equally-qualified people from outside the county had there been no CTE students to hire. Therefore, we attribute only the remaining 50% of the initial labor income generated by increased alumni productivity to the colleges' CTE.

Table A2.2 presents the results of the sensitivity analysis for the labor import effect variable. As explained earlier, the assumption increases and decreases relative to the base case of 50% by the increments indicated in the table. Alumni productivity impacts attributable to SDICCC's CTE, for example, range from a high of \$3.3 billion at a -50% variation to a low of \$1.1 billion at a +50% variation from the base case assumption. This means that if the labor import effect variable increases, the impact that we claim as attributable to alumni decreases. Even under the most conservative assumptions, the alumni impact on the San Diego County economy still remains sizeable.

Table A2.2: SENSITIVITY ANALYSIS OF LABOR IMPORT EFFECT VARIABLE

% variation in assumption	-50%	-25%	-10%	Base case	10%	25%	50%
Labor import effect variable	25%	38%	45%	50%	55%	63%	75%
Alumni impact (millions)	\$3,332	\$2,777	\$2,444	\$2,222	\$1,999	\$1,666	\$1,111

Student employment variables

Student employment variables are difficult to estimate because many students do not report their employment status or because colleges generally do not collect this kind of information. Employment variables include the following: 1) the percentage of CTE students who are employed while attending the colleges and 2) the percentage of earnings that working students receive relative to the earnings they would have received had they not chosen to attend the colleges. Both employment variables affect the investment analysis results from the student perspective.

CTE students incur substantial expense by attending the colleges because of the time they spend not gainfully employed. Some of that cost is recaptured if students remain partially (or fully) employed while attending. It is estimated that 80% of students are employed.⁴⁷ This variable is tested in the sensitivity analysis by changing it first to 100% and then to 0%.

The second student employment variable is more difficult to estimate. In this study we estimate that CTE students who are working while attending the colleges earn only 76%, on average, of the earnings that they statistically would have received if not attending the colleges. This suggests that many CTE students hold part-time jobs that accommodate their attendance at the colleges, though it is at an additional cost in terms of receiving a wage that is less than what they otherwise might make. The 76% variable is an estimation based on the average hourly wages of the most common jobs held by students while attending college relative to the average hourly wages of all occupations in the U.S. The model captures this difference in wages and counts it as part of the opportunity cost of time. As above, the 76% estimate is tested in the sensitivity analysis by changing it to 100% and then to 0%.

The changes generate results summarized in Table A2.3, with *A* defined as the percent of CTE students employed and *B* defined as the percent that students earn relative to their full earning potential. Base case results appear in the shaded row; here the assumptions remain unchanged, with *A* equal to 80% and *B* equal to 76%. Sensitivity analysis results are shown in non-shaded rows. Scenario 1 increases *A* to 100% while holding *B* constant, Scenario 2 increases *B* to 100% while holding *A* constant, Scenario 3 increases both *A* and *B* to 100%, and Scenario 4 decreases both *A* and *B* to 0%.

Table A2.3: SENSITIVITY ANALYSIS OF STUDENT EMPLOYMENT VARIABLES

Variations in assumptions	Net present value (millions)	Internal rate of return	Benefit-cost ratio
Base case: A = 80%, B = 76%	\$2,053.5	21.2%	5.6
Scenario 1: A = 100%, B = 76%	\$2,179.0	26.6%	7.7
Scenario 2: A = 80%, B = 100%	\$2,236.8	30.5%	9.4
Scenario 3: A = 100%, B = 100%	\$2,406.1	60.8%	26.1
Scenario 4: A = 0%, B = 0%	\$1,526.7	11.8%	2.6

Note: A = percent of students employed; B = percent earned relative to statistical averages

- Scenario 1:** Increasing the percentage of students employed (*A*) from 80% to 100%, the net present value, internal rate of return, and benefit-cost ratio improve to \$2.2 billion, 26.6%, and 7.7, respectively, relative to base case results. Improved results are attributable to a lower opportunity cost of time; all students are employed in this case.

⁴⁷ Emsi Burning Glass provided estimates of the percentage of CTE students employed for colleges that were unable to provide data. This figure excludes dual credit high school students, who are not included in the opportunity cost calculations.

- **Scenario 2:** Increasing earnings relative to statistical averages (B) from 76% to 100%, the net present value, internal rate of return, and benefit-cost ratio results improve to \$2.2 billion, 30.5%, and 9.4, respectively, relative to base case results; a strong improvement, again attributable to a lower opportunity cost of time.
- **Scenario 3:** Increasing both assumptions A and B to 100% simultaneously, the net present value, internal rate of return, and benefit-cost ratio improve yet further to \$2.4 billion, 60.8%, and 26.1, respectively, relative to base case results. This scenario assumes that all students are fully employed and earning full salaries (equal to statistical averages) while attending classes.
- **Scenario 4:** Finally, decreasing both A and B to 0% reduces the net present value, internal rate of return, and benefit-cost ratio to \$1.5 billion, 11.8%, and 2.6, respectively, relative to base case results. These results are reflective of an increased opportunity cost; none of the students are employed in this case.⁴⁸

It is strongly emphasized in this section that base case results are very attractive in that results are all above their threshold levels. As is clearly demonstrated here, results of the first three alternative scenarios appear much more attractive, although they overstate benefits. Results presented in Chapter 3 are realistic, indicating that investments in SDICCC's CTE generate excellent returns, well above the long-term average percent rates of return in stock and bond markets.

Discount rate

The discount rate is a rate of interest that converts future monies to their present value. In investment analysis, the discount rate accounts for two fundamental principles: 1) the time value of money, and 2) the level of risk that an investor is willing to accept. Time value of money refers to the value of money after interest or inflation has accrued over a given length of time. An investor must be willing to forego the use of money in the present to receive compensation for it in the future. The discount rate also addresses the investors' risk preferences by serving as a proxy for the minimum rate of return that the proposed risky asset must be expected to yield before the investors will be persuaded to invest in it. Typically, this minimum rate of return is determined by the known returns of less risky assets where the investors might alternatively consider placing their money.

In this study, we assume a 4.5% discount rate for CTE students and a 0.4% discount rate for taxpayers and society.⁴⁹ Similar to the sensitivity analysis of the alternative education variable, we vary the base case discount rates for CTE students, taxpayers, and society on either side by increasing the discount rate by 10%, 25%,

⁴⁸ Note that reducing the percent of students employed to 0% automatically negates the percent they earn relative to full earning potential, since none of the students receive any earnings in this case.

⁴⁹ These values are based on the baseline forecasts for the 10-year Treasury rate published by the Congressional Budget Office and the real treasury interest rates recommended by the Office of Management and Budget for 30-year investments. See the Congressional Budget Office "Table 4. Projection of Borrower Interest Rates: CBO's March 2020 Baseline" and the Office of Management and Budget "Discount Rates for Cost-Effectiveness, Lease Purchase, and Related Analyses."

and 50%, and then reducing it by 10%, 25%, and 50%. Note that, because the rate of return and the payback period are both based on the undiscounted cash flows, they are unaffected by changes in the discount rate. As such, only variations in the net present value and the benefit-cost ratio are shown for students, taxpayers, and society in Table A2.4.

Table A2.4: SENSITIVITY ANALYSIS OF DISCOUNT RATE

% variation in assumption	-50%	-25%	-10%	Base case	10%	25%	50%
Student perspective							
Discount rate	2.3%	3.4%	4.1%	4.5%	5.0%	5.7%	6.8%
Net present value (millions)	\$3,239	\$2,568	\$2,244	\$2,053	\$1,881	\$1,653	\$1,597
Benefit-cost ratio	8.2	6.7	6.0	5.6	5.2	4.7	4.6
Taxpayer perspective							
Discount rate	0.2%	0.3%	0.4%	0.4%	0.4%	0.5%	0.6%
Net present value (millions)	\$664	\$645	\$634	\$626	\$619	\$608	\$590
Benefit-cost ratio	2.8	2.7	2.7	2.7	2.6	2.6	2.6
Social perspective							
Discount rate	0.2%	0.3%	0.4%	0.4%	0.4%	0.5%	0.6%
Net present value (millions)	\$11,787	\$11,555	\$11,419	\$11,329	\$11,240	\$11,109	\$10,893
Benefit-cost ratio	14.3	14.1	13.9	13.8	13.7	13.6	13.3

As demonstrated in the table, an increase in the discount rate leads to a corresponding decrease in the expected returns, and vice versa. For example, increasing the CTE student discount rate by 50% (from 4.5% to 6.8%) reduces the students' benefit-cost ratio from 5.6 to 4.6. Conversely, reducing the discount rate for students by 50% (from 4.5% to 2.3%) increases the benefit-cost ratio from 5.6 to 8.2. The sensitivity analysis results for society and taxpayers show the same inverse relationship between the discount rate and the benefit-cost ratio, with the variance in results being the greatest under the social perspective (from a benefit-cost ratio of 14.3 at a -50% variation from the base case to a benefit-cost ratio of 13.3 at a 50% variation from the base case).

Retained student variable

The retained student variable only affects the CTE student spending impact calculation in Table 2.5. For this analysis, we assume a retained student variable of 10%, which means that 10% of the colleges' CTE students who originated from San Diego County would have left the county for other opportunities, whether that be education or employment, if SDICCC's CTE did not exist. The money these retained students spent in the county for accommodation and other personal and household expenses is attributable to SDICCC's CTE.

Table A2.5 presents the results of the sensitivity analysis for the retained student variable. The assumption increases and decreases relative to the base case of 10% by the increments indicated in the table. The CTE student spending impact is recalculated at each value of the assumption, holding all else constant. CTE

student spending impacts attributable to SDICCC's CTE range from a high of \$242.5 million when the retained student variable is 15% to a low of \$117.1 million when the retained student variable is 5%. This means as the retained CTE student variable decreases, the student spending attributable to SDICCC's CTE decreases. Even under the most conservative assumptions, the CTE student spending impact on the San Diego County economy remains substantial.

Table A2.5: SENSITIVITY ANALYSIS OF RETAINED STUDENT VARIABLE

% variation in assumption	-50%	-25%	-10%	Base case	10%	25%	50%
Retained student variable	5%	8%	9%	10%	11%	13%	15%
Student spending impact (thousands)	\$117,126	\$148,481	\$167,294	\$179,814	\$192,378	\$211,191	\$242,546

Alternative education: A “with” and “without” measure of the percent of CTE students who would still be able to avail themselves of education if the colleges’ CTE under analysis did not exist. An estimate of 10%, for example, means that 10% of CTE students do not depend directly on the existence of CTE in order to obtain their education.

Alternative use of funds: A measure of how monies that are currently used to fund the colleges’ CTE might otherwise have been used if CTE did not exist.

Asset value: Capitalized value of a stream of future returns. Asset value measures what someone would have to pay today for an instrument that provides the same stream of future revenues.

Attrition rate: Rate at which students leave the workforce due to out-migration, unemployment, retirement, or death.

Benefit-cost ratio: Present value of benefits divided by present value of costs. If the benefit-cost ratio is greater than 1, then benefits exceed costs, and the investment is feasible.

Counterfactual scenario: What would have happened if a given event had not occurred. In the case of this economic impact study, the counterfactual scenario is a scenario where the colleges’ CTE did not exist.

Credit hour equivalent: Credit hour equivalent, or CHE, is defined as 15 contact hours of education if on a semester system, and 10 contact hours if on a quarter system. In general, it requires 450 contact hours to complete one full-time equivalent, or FTE.

Demand: Relationship between the market price of education and the volume of education demanded (expressed in terms of enrollment). The law of the downward-sloping demand curve is related to the fact that enrollment increases only if the price (tuition and fees) is lowered, or conversely, enrollment decreases if price increases.

Discounting: Expressing future revenues and costs in present value terms.

Earnings (labor income): Income that is received as a result of labor; i.e., wages.

Economics: Study of the allocation of scarce resources among alternative and competing ends. Economics is not normative (what ought to be done), but positive (describes what is, or how people are likely to behave in response to economic changes).

Elasticity of demand: Degree of responsiveness of the quantity of education demanded (enrollment) to changes in market prices (tuition and fees). If a decrease in fees increases or decreases total enrollment by a significant amount, demand is elastic. If enrollment remains the same or changes only slightly, demand is inelastic.

Externalities: Impacts (positive and negative) for which there is no compensation. Positive externalities of education include improved social behaviors such as improved health, lower crime, and reduced demand for income assistance. Educational institutions do not receive compensation for these benefits but benefits still occur because education is statistically proven to lead to improved social behaviors.

Gross regional product: Measure of the final value of all goods and services produced in a county after netting out the cost of goods used in production. Alternatively, gross regional product (GRP) equals the combined incomes of all factors of production, i.e., labor, land, and capital. These include wages, salaries, proprietors' incomes, profits, rents, and other. Gross regional product is also sometimes called value added or added income.

Initial effect: Income generated by the initial injection of monies into the economy through the payroll of the colleges' CTE and the higher earnings of their students.

Input-output analysis: Relationship between a given set of demands for final goods and services and the implied amounts of manufactured inputs, raw materials, and labor that this requires. When educational institutions pay wages and salaries and spend money for supplies in the county, they also generate earnings in all sectors of the economy, thereby increasing the demand for goods and services and jobs. Moreover, as students enter or rejoin the workforce with higher skills, they earn higher salaries and wages. In turn, this generates more consumption and spending in other sectors of the economy.

Internal rate of return: Rate of interest that, when used to discount cash flows associated with investing in education, reduces its net present value to zero (i.e., where the present value of revenues accruing from the investment are just equal to the present value of costs incurred). This, in effect, is the breakeven rate of return on investment since it shows the highest rate of interest at which the investment makes neither a profit nor a loss.

Multiplier effect: Additional income created in the economy as the colleges' CTE and their students spend money in the county. It consists of the income created by the supply chain of the industries initially affected by the spending of the colleges' CTE and its students (i.e., the direct effect), income created by the supply chain of the initial supply chain (i.e., the indirect effect), and the income created by the increased spending of the household sector (i.e., the induced effect).

NAICS: The North American Industry Classification System (NAICS) classifies North American business establishment in order to better collect, analyze, and publish statistical data related to the business economy.

Net cash flow: Benefits minus costs, i.e., the sum of revenues accruing from an investment minus costs incurred.

Net present value: Net cash flow discounted to the present. All future cash flows are collapsed into one number, which, if positive, indicates feasibility. The result is expressed as a monetary measure.

Non-labor income: Income received from investments, such as rent, interest, and dividends.

Opportunity cost: Benefits foregone from alternative B once a decision is made to allocate resources to alternative A. Or, if individuals choose to attend college, they forego earnings that they would have received had they chose instead to work full-time. Foregone earnings, therefore, are the “price tag” of choosing to attend college.

Payback period: Length of time required to recover an investment. The shorter the period, the more attractive the investment. The formula for computing payback period is:

$$\text{Payback period} = \text{cost of investment} / \text{net return per period}$$

APPENDIX 4: FREQUENTLY ASKED QUESTIONS (FAQs)

This appendix provides answers to some frequently asked questions about the results.

What is economic impact analysis?

Economic impact analysis quantifies the impact from a given economic event—in this case, the presence of the colleges—on the economy of a specified region.

What is investment analysis?

Investment analysis is a standard method for determining whether or not an existing or proposed investment is economically viable. This methodology is appropriate in situations where a stakeholder puts up a certain amount of money with the expectation of receiving benefits in return, where the benefits that the stakeholder receives are distributed over time, and where a discount rate must be applied in order to account for the time value of money.

Do the results differ by region, and if so, why?

Yes. Regional economic data are drawn from Emsi Burning Glass's proprietary MR-SAM model, the Census Bureau, and other sources to reflect the specific earnings levels, jobs numbers, unemployment rates, population demographics, and other key characteristics of the region served by the colleges. Therefore, model results for the colleges are specific to the given region.

Are the funds transferred to CTE increasing in value, or simply being re-directed?

Emsi Burning Glass's approach is not a simple "rearranging of the furniture" where the impact of operations spending is essentially a restatement of the level of funding received by the colleges. Rather, it is an impact assessment of the additional income created in the region as a result of the colleges' CTE spending on payroll and other non-pay expenditures, net of any impacts that would have occurred anyway if CTE did not exist.

How do my rates of return compare to that of other systems?

In general, Emsi Burning Glass discourages comparisons between systems or institutions since many factors, such as regional economic conditions, institutional differences, and student demographics are outside of the colleges' control. It is best to compare the rate of return to the discount rates of 4.5% (for students) and 0.4% (for society and taxpayers), which can also be seen as the opportunity cost of the investment (since these stakeholder groups could be spending their time and money in other investment schemes besides education). If the rate of return is higher than the discount rate, the stakeholder groups can expect to receive a positive return on their educational investment.

Emsi Burning Glass recognizes that some institutions may want to make comparisons. As a word of caution, if comparing to an institution that had a study commissioned by a firm other than Emsi Burning Glass, then differences in methodology will create an “apples to oranges” comparison and will therefore be difficult. The study results should be seen as unique to each institution.

Net present value (NPV): How do I communicate this in laymen's terms?

Which would you rather have: a dollar right now or a dollar 30 years from now? That most people will choose a dollar now is the crux of net present value. The preference for a dollar today means today's dollar is therefore worth more than it would be in the future (in most people's opinion). Because the dollar today is worth more than a dollar in 30 years, the dollar 30 years from now needs to be adjusted to express its worth today. Adjusting the values for this “time value of money” is called discounting and the result of adding them all up after discounting each value is called net present value.

Internal rate of return (IRR): How do I communicate this in laymen's terms?

Using the bank as an example, an individual needs to decide between spending all of their paycheck today and putting it into savings. If they spend it today, they know what it is worth: \$1 = \$1. If they put it into savings, they need to know that there will be some sort of return to them for spending those dollars in the future rather than now. This is why banks offer interest rates and deposit interest earnings. This makes it so an individual can expect, for example, a 3% return in the future for money that they put into savings now.

Total economic impact: How do I communicate this in laymen's terms?

Big numbers are great but putting them into perspective can be a challenge. To add perspective, find an industry with roughly the same “% of GRP” as your colleges (Table 1.3). This percentage represents its portion of the total gross regional product in the county (similar to the nationally recognized gross domestic product but at a county level). This allows the colleges to say that their brick and mortar campuses do just as much for San Diego County as the entire Utilities *industry*, for example. This powerful statement can help put the large total impact number into perspective.

APPENDIX 5: EXAMPLE OF SALES VERSUS INCOME

Emsi Burning Glass's economic impact study differs from many other studies because we prefer to report the impacts in terms of income rather than sales (or output). Income is synonymous with value added or gross regional product (GRP). Sales include all the intermediary costs associated with producing goods and services. Income is a net measure that excludes these intermediary costs:

$$\text{Income} = \text{Sales} - \text{Intermediary Costs}$$

For this reason, income is a more meaningful measure of new economic activity than reporting sales. This is evidenced by the use of gross domestic product (GDP)—a measure of income—by economists when considering the economic growth or size of a country. The difference is GRP reflects a county and GDP a country.

To demonstrate the difference between income and sales, let us consider an example of a baker's production of a loaf of bread. The baker buys the ingredients such as eggs, flour, and yeast for \$2.00. He uses capital such as a mixer to combine the ingredients and an oven to bake the bread and convert it into a final product. Overhead costs for these steps are \$1.00. Total intermediary costs are \$3.00. The baker then sells the loaf of bread for \$5.00.

The sales amount of the loaf of bread is \$5.00. The income from the loaf of bread is equal to the sales amount less the intermediary costs:

$$\text{Income} = \$5.00 - \$3.00 = \$2.00$$

In our analysis, we provide context behind the income figures by also reporting the associated number of jobs. The impacts are also reported in sales and earnings terms for reference.

APPENDIX 6: EMSI BURNING GLASS MR-SAM

Emsi Burning Glass's MR-SAM represents the flow of all economic transactions in a given region. It replaces Emsi Burning Glass's previous input-output (IO) model, which operated with some 1,000 industries, four layers of government, a single household consumption sector, and an investment sector. The old IO model was used to simulate the ripple effects (*i.e.*, multipliers) in the county economy as a result of industries entering or exiting the region. The MR-SAM model performs the same tasks as the old IO model, but it also does much more. Along with the same 1,000 industries, government, household, and investment sectors embedded in the old IO tool, the MR-SAM exhibits much more functionality, a greater amount of data, and a higher level of detail on the demographic and occupational components of jobs (16 demographic cohorts and about 750 occupations are characterized).

This appendix presents a high-level overview of the MR-SAM. Additional documentation on the technical aspects of the model is available upon request.

Data sources for the model

The Emsi Burning Glass MR-SAM model relies on a number of internal and external data sources, mostly compiled by the federal government. What follows is a listing and short explanation of our sources. The use of these data will be covered in more detail later in this appendix.

Emsi Burning Glass Data are produced from many data sources to produce detailed industry, occupation, and demographic jobs and earnings data at the local level. This information (especially sales-to-jobs ratios derived from jobs and earnings-to-sales ratios) is used to help regionalize the national matrices as well as to disaggregate them into more detailed industries than are normally available.

BEA Make and Use Tables (MUT) are the basis for input-output models in the U.S. The *make* table is a matrix that describes the amount of each commodity made by each industry in a given year. Industries are placed in the rows and commodities in the columns. The *use* table is a matrix that describes the amount of each commodity used by each industry in a given year. In the use table, commodities are placed in the rows and industries in the columns. The BEA produces two different sets of MUTs, the benchmark and the summary. The benchmark set contains about 500 sectors and is released every five years, with a five-year lag time (e.g., 2002 benchmark MUTs were released in 2007). The summary set contains about 80 sectors and is released every year, with a two-year lag (e.g., 2010 summary MUTs were released in late 2011/early 2012). The MUTs are used

in the Emsi Burning Glass MR-SAM model to produce an industry-by-industry matrix describing all industry purchases from all industries.

BEA Gross Domestic Product by State (GSP) describes gross domestic product from the value added (also known as added income) perspective. Value added is equal to employee compensation, gross operating surplus, and taxes on production and imports, less subsidies. Each of these components is reported for each state and an aggregate group of industries. This dataset is updated once per year, with a one-year lag. The Emsi Burning Glass MR-SAM model makes use of this data as a control and pegs certain pieces of the model to values from this dataset.

BEA National Income and Product Accounts (NIPA) cover a wide variety of economic measures for the nation, including gross domestic product (GDP), sources of output, and distribution of income. This dataset is updated periodically throughout the year and can be between a month and several years old depending on the specific account. NIPA data are used in many of the Emsi Burning Glass MR-SAM processes as both controls and seeds.

BEA Local Area Income (LPI) encapsulates multiple tables with geographies down to the county level. The following two tables are specifically used: CA05 (Personal income and earnings by industry) and CA91 (Gross flow of earnings). CA91 is used when creating the commuting submodel and CA05 is used in several processes to help with place-of-work and place-of-residence differences, as well as to calculate personal income, transfers, dividends, interest, and rent.

Bureau of Labor Statistics Consumer Expenditure Survey (CEX) reports on the buying habits of consumers along with some information as to their income, consumer unit, and demographics. Emsi Burning Glass utilizes this data heavily in the creation of the national demographic by income type consumption on industries.

Census of Government's (CoG) state and local government finance dataset is used specifically to aid breaking out state and local data that is reported in the MUTs. This allows Emsi Burning Glass to have unique production functions for each of its state and local government sectors.

Census' OnTheMap (OTM) is a collection of three datasets for the census block level for multiple years. **Origin-Destination (OD)** offers job totals associated with both home census blocks and a work census block. **Residence Area Characteristics (RAC)** offers jobs totaled by home census block. **Workplace Area Characteristics (WAC)** offers jobs totaled by work census block. All three of these are used in the commuting submodel to gain better estimates of earnings by industry that may be counted as commuting. This dataset has holes for specific years and regions. These holes are filled with Census' Journey-to-Work described later.

Census' Current Population Survey (CPS) is used as the basis for the demographic breakout data of the MR-SAM model. This set is used to estimate the

ratios of demographic cohorts and their income for the three different income categories (i.e., wages, property income, and transfers).

Census' Journey-to-Work (JtW) is part of the 2000 Census and describes the amount of commuting jobs between counties. This set is used to fill in the areas where OTM does not have data.

Census' American Community Survey (ACS) Public Use Microdata Sample (PUMS) is the replacement for Census' long form and is used by Emsi Burning Glass to fill the holes in the CPS data.

Oak Ridge National Lab (ORNL) County-to-County Distance Matrix (Skim Tree) contains a matrix of distances and network impedances between each county via various modes of transportation such as highway, railroad, water, and combined highway-rail. Also included in this set are minimum impedances utilizing the best combination of paths. The ORNL distance matrix is used in Emsi Burning Glass's gravitational flows model that estimates the amount of trade between counties in the country.

Overview of the MR-SAM model

Emsi Burning Glass's MR-SAM modeling system is a comparative static model in the same general class as RIMS II (Bureau of Economic Analysis) and IMPLAN (Minnesota Implan Group). The MR-SAM model is thus not an econometric model, the primary example of which is PolicyInsight by REMI. It relies on a matrix representation of industry-to-industry purchasing patterns originally based on national data which are regionalized with the use of local data and mathematical manipulation (i.e., non-survey methods). Models of this type estimate the ripple effects of changes in jobs, earnings, or sales in one or more industries upon other industries in a region.

The Emsi Burning Glass MR-SAM model shows final equilibrium impacts—that is, the user enters a change that perturbs the economy and the model shows the changes required to establish a new equilibrium. As such, it is not a dynamic model that shows year-by-year changes over time (as REMI's does).

NATIONAL SAM

Following standard practice, the SAM model appears as a square matrix, with each row sum exactly equaling the corresponding column sum. Reflecting its kinship with the standard Leontief input-output framework, individual SAM elements show accounting flows between row and column sectors during a chosen base year. Read across rows, SAM entries show the flow of funds into column accounts (also known as receipts or the appropriation of funds by those column accounts). Read down columns, SAM entries show the flow of funds into row accounts (also known as expenditures or the dispersal of funds to those row accounts).

The SAM may be broken into three different aggregation layers: broad accounts, sub-accounts, and detailed accounts. The broad layer is the most aggregate and will be covered first. Broad accounts cover between one and four sub-accounts, which in turn cover many detailed accounts. This appendix will not discuss detailed accounts directly because of their number. For example, in the industry broad account, there are two sub-accounts and over 1,000 detailed accounts.

MULTI-REGIONAL ASPECT OF THE MR-SAM

Multi-regional (MR) describes a non-survey model that has the ability to analyze the transactions and ripple effects (i.e., multipliers) of not just a single region, but multiple regions interacting with each other. Regions in this case are made up of a collection of counties.

Emsi Burning Glass's multi-regional model is built off of gravitational flows, assuming that the larger a county's economy, the more influence it will have on the surrounding counties' purchases and sales. The equation behind this model is essentially the same that Isaac Newton used to calculate the gravitational pull between planets and stars. In Newton's equation, the masses of both objects are multiplied, then divided by the distance separating them and multiplied by a constant. In Emsi Burning Glass's model, the masses are replaced with the supply of a sector for one county and the demand for that same sector from another county. The distance is replaced with an impedance value that takes into account the distance, type of roads, rail lines, and other modes of transportation. Once this is calculated for every county-to-county pair, a set of mathematical operations is performed to make sure all counties absorb the correct amount of supply from every county and the correct amount of demand from every county. These operations produce more than 200 million data points.

Components of the Emsi Burning Glass MR-SAM model

The Emsi Burning Glass MR-SAM is built from a number of different components that are gathered together to display information whenever a user selects a region. What follows is a description of each of these components and how each is created. Emsi Burning Glass's internally created data are used to a great extent throughout the processes described below, but its creation is not described in this appendix.

COUNTY EARNINGS DISTRIBUTION MATRIX

The county earnings distribution matrices describe the earnings spent by every industry on every occupation for a year—i.e., earnings by occupation. The matrices are built utilizing Emsi Burning Glass's industry earnings, occupational average earnings, and staffing patterns.

Each matrix starts with a region's staffing pattern matrix which is multiplied by the industry jobs vector. This produces the number of occupational jobs in

each industry for the region. Next, the occupational average hourly earnings per job are multiplied by 2,080 hours, which converts the average hourly earnings into a yearly estimate. Then the matrix of occupational jobs is multiplied by the occupational annual earnings per job, converting it into earnings values. Last, all earnings are adjusted to match the known industry totals. This is a fairly simple process, but one that is very important. These matrices describe the place-of-work earnings used by the MR-SAM.

COMMUTING MODEL

The commuting sub-model is an integral part of Emsi Burning Glass's MR-SAM model. It allows the regional and multi-regional models to know what amount of the earnings can be attributed to place-of-residence vs. place-of-work. The commuting data describe the flow of earnings from any county to any other county (including within the counties themselves). For this situation, the commuted earnings are not just a single value describing total earnings flows over a complete year but are broken out by occupation and demographic. Breaking out the earnings allows for analysis of place-of-residence and place-of-work earnings. These data are created using Bureau of Labor Statistics' OnTheMap dataset, Census' Journey-to-Work, BEA's LPI CA91 and CA05 tables, and some of Emsi Burning Glass's data. The process incorporates the cleanup and disaggregation of the OnTheMap data, the estimation of a closed system of county inflows and outflows of earnings, and the creation of finalized commuting data.

NATIONAL SAM

The national SAM as described above is made up of several different components. Many of the elements discussed are filled in with values from the national Z matrix—or industry-to-industry transaction matrix. This matrix is built from BEA data that describe which industries make and use what commodities at the national level. These data are manipulated with some industry standard equations to produce the national Z matrix. The data in the Z matrix act as the basis for the majority of the data in the national SAM. The rest of the values are filled in with data from the county earnings distribution matrices, the commuting data, and the BEA's National Income and Product Accounts.

One of the major issues that affect any SAM project is the combination of data from multiple sources that may not be consistent with one another. Matrix balancing is the broad name for the techniques used to correct this problem. Emsi Burning Glass uses a modification of the “diagonal similarity scaling” algorithm to balance the national SAM.

GRAVITATIONAL FLOWS MODEL

The most important piece of the Emsi Burning Glass MR-SAM model is the gravitational flows model that produces county-by-county regional purchasing coefficients (RPCs). RPCs estimate how much an industry purchases from other

industries inside and outside of the defined region. This information is critical for calculating all IO models.

Gravity modeling starts with the creation of an impedance matrix that values the difficulty of moving a product from county to county. For each sector, an impedance matrix is created based on a set of distance impedance methods for that sector. A distance impedance method is one of the measurements reported in the Oak Ridge National Laboratory's County-to-County Distance Matrix. In this matrix, every county-to-county relationship is accounted for in six measures: great-circle distance, highway impedance, rail miles, rail impedance, water impedance, and highway-rail-highway impedance. Next, using the impedance information, the trade flows for each industry in every county are solved for. The result is an estimate of multi-regional flows from every county to every county. These flows are divided by each respective county's demand to produce multi-regional RPCs.

APPENDIX 7: VALUE PER CREDIT HOUR EQUIVALENT AND THE MINCER FUNCTION

Two key components in the analysis are 1) the value of the students' educational achievements, and 2) the change in that value over the students' working careers. Both of these components are described in detail in this appendix.

Value per CHE

Typically, the educational achievements of students are marked by the credentials they earn. However, not all CTE students who attended the colleges in the 2019-20 analysis year obtained a degree or certificate. Some returned the following year to complete their education goals, while others took a few courses and entered the workforce without graduating. As such, the only way to measure the value of the CTE students' achievement is through their credit hour equivalents, or CHEs. This approach allows us to see the benefits to all students who attended the colleges, not just those who earned a credential.

To calculate the value per CHE, we first determine how many CHEs are required to complete each education level. For example, assuming that there are 30 CHEs in an academic year, a CTE student generally completes 120 CHEs in order to move from a high school diploma to a bachelor's degree, another 60 CHEs to move from a bachelor's degree to a master's degree, and so on. This progression of CHEs generates an education ladder beginning at the less than high school level and ending with the completion of a doctoral degree, with each level of education representing a separate stage in the progression.

The second step is to assign a unique value to the CHEs in the education ladder based on the wage differentials presented in Table 1.4.⁵⁰ For example, the difference in county earnings between a high school diploma and an associate degree is \$11,000. We spread this \$11,000 wage differential across the 60 CHEs that occur between a high school diploma and an associate degree, applying a ceremonial "boost" to the last CHE in the stage to mark the achievement of the degree.⁵¹ We repeat this process for each education level in the ladder.

50 The value per CHE is different between the economic impact analysis and the investment analysis. The economic impact analysis uses the county as its backdrop and, therefore, uses county earnings to calculate value per CHE, while the investment analysis uses the state as its backdrop and, therefore, uses state earnings. The methodology outlined in this appendix will use county earnings; however, the same methodology is followed for the investment analysis when state earnings are used.

51 Economic theory holds that workers that acquire education credentials send a signal to employers about their ability level. This phenomenon is commonly known as the sheepskin effect or signaling effect. The ceremonial boosts applied to the achievement of degrees in the Emsi Burning Glass impact model are derived from Jaeger and Page (1996).

Next, we map the CHE production of the FY 2019-20 student population to the education ladder. Table 1.2 provides information on the CHE production of CTE students attending the colleges, broken out by educational achievement. In total, CTE students completed 971,980 CHEs during the analysis year, excluding personal enrichment students. We map each of these CHEs to the education ladder depending on the students' education level and the average number of CHEs they completed during the year. For example, bachelor's degree graduates are allocated to the stage between the associate degree and the bachelor's degree, and the average number of CHEs they completed informs the shape of the distribution curve used to spread out their total CHE production within that stage of the progression.

The sum product of the CHEs earned at each step within the education ladder and their corresponding value yields the students' aggregate annual increase in income (ΔE), as shown in the following equation:

$$\Delta E = \sum_{i=1}^n e_i h_i \text{ where } i \in 1, 2, \dots, n$$

and n is the number of steps in the education ladder, e_i is the marginal earnings gain at step i , and h_i is the number of CHEs completed at step i .

Table A7.1 displays the result for the students' aggregate annual increase in income (ΔE), a total of \$140.3 million. By dividing this value by the students' total production of 971,980 CHEs during the analysis year, we derive an overall value of \$144 per CHE.

Table A7.1:
AGGREGATE ANNUAL INCREASE IN INCOME OF STUDENTS AND VALUE PER CHE

Aggregate annual increase in income	\$140,272,862
Total credit hour equivalents (CHEs) in FY 2019-20*	971,980
Value per CHE	\$144

* Excludes the CHE production of personal enrichment students.
Source: Emsi Burning Glass impact model.

Mincer function

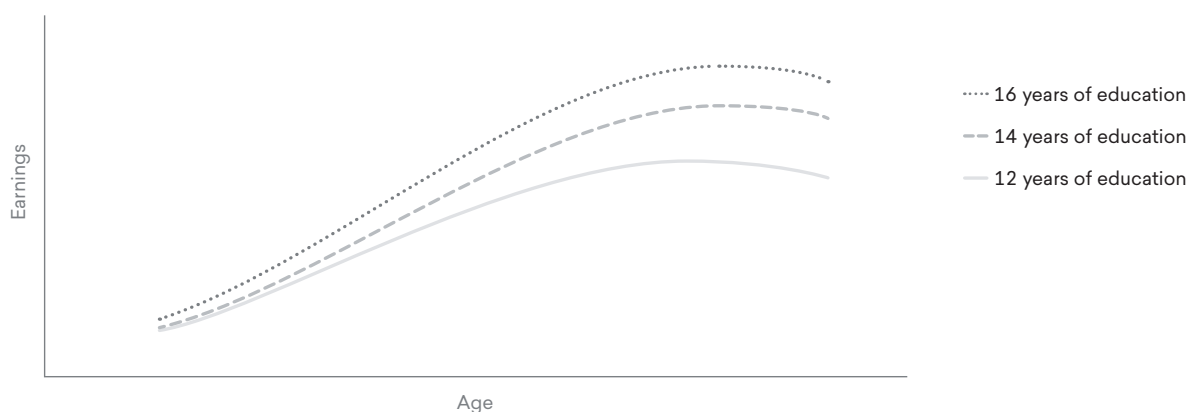
The \$144 value per CHE in Table A7.1 only tells part of the story, however. Human capital theory holds that earnings levels do not remain constant; rather, they start relatively low and gradually increase as the worker gains more experience. Research also shows that the earnings increment between educated and non-educated workers grows through time. These basic patterns in earnings over time were originally identified by Jacob Mincer, who viewed the lifecycle earnings distribution as a function with the key elements being earnings, years of education, and work experience, with age serving as a proxy for experience.⁵²

52 See Mincer (1958 and 1974).

While some have criticized Mincer's earnings function, it is still upheld in recent data and has served as the foundation for a variety of research pertaining to labor economics. Those critical of the Mincer function point to several unobserved factors such as ability, socioeconomic status, and family background that also help explain higher earnings. Failure to account for these factors results in what is known as an "ability bias." Research by Card (1999 and 2001) suggests that the benefits estimated using Mincer's function are biased upwards by 10% or less. As such, we reduce the estimated benefits by 10%. We use state-specific and education level-specific Mincer coefficients.

Figure A7.1 illustrates several important points about the Mincer function. First, as demonstrated by the shape of the curves, an individual's earnings initially increase at an increasing rate, then increase at a decreasing rate, reach a maximum somewhere well after the midpoint of the working career, and then decline in later years. Second, individuals with higher levels of education reach their maximum earnings at an older age compared to individuals with lower levels of education (recall that age serves as a proxy for years of experience). And third, the benefits of education, as measured by the difference in earnings between education levels, increase with age.

Figure A7.1: LIFECYCLE CHANGE IN EARNINGS



In calculating the alumni impact in Chapter 2, we use the slope of the curve in Mincer's earnings function to condition the \$144 value per CHE to the students' age and work experience. To the students just starting their career during the analysis year, we apply a lower value per CHE; to the students in the latter half or approaching the end of their careers we apply a higher value per CHE. The original \$144 value per CHE applies only to the CHE production of students precisely at the midpoint of their careers during the analysis year.

In Chapter 3 we again apply the Mincer function, this time to project the benefits stream of the FY 2019-20 student population into the future. Here too the value per CHE is lower for students at the start of their career and higher near the end of it, in accordance with the scalars derived from the slope of the Mincer curve illustrated in Figure A7.1.

APPENDIX 8: ALTERNATIVE EDUCATION VARIABLE

In a scenario where the colleges' CTE did not exist, some of its students would still be able to avail themselves of an alternative comparable education. These students create benefits in the county even in the absence of the colleges. The alternative education variable accounts for these students and is used to discount the benefits we attribute to the colleges' CTE.

Recall this analysis considers only relevant economic information regarding the colleges. Considering the existence of various other academic institutions surrounding the colleges, we have to assume that a portion of the students could find alternative education and either remain in or return to the county. For example, some students may participate in online programs while remaining in the county. Others may attend an out-of-county institution and return to the county upon completing their studies. For these students—who would have found an alternative education and produced benefits in the county regardless of the presence of the colleges—we discount the benefits attributed to the colleges' CTE. An important distinction must be made here: the benefits from students who would find alternative education outside the county and not return to the county are *not* discounted. Because these benefits would not occur in the county without the presence of the colleges, they must be included.




In the absence of the colleges' CTE, we assume 15% of the colleges' CTE students would find alternative education opportunities and remain in or return to the county. We account for this by discounting the alumni impact, the benefits to taxpayers, and the benefits to society in the county in Chapters 2 and 3 by 15%. In other words, we assume 15% of the benefits created by the colleges' CTE students would have occurred anyway in the counterfactual scenario where the colleges did not exist. A sensitivity analysis of this adjustment is presented in Appendix 2.

APPENDIX 9: OVERVIEW OF INVESTMENT ANALYSIS MEASURES

The appendix provides context to the investment analysis results using the simple hypothetical example summarized in Table A9.1 below. The table shows the projected benefits and costs for a single student over time and associated investment analysis results.⁵³

Table A9.1: EXAMPLE OF THE BENEFITS AND COSTS OF EDUCATION FOR A SINGLE STUDENT

1	2	3	4	5	6
Year	Tuition	Opportunity cost	Total cost	Higher earnings	Net cash flow
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
Net present value			\$21,500	\$35,753	\$14,253

	Benefit-cost ratio 1.7		Internal rate of return 18.0%		Payback period (years) 4.2
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Assumptions are as follows:

- Benefits and costs are projected out 10 years into the future (Column 1).
- The student attends the colleges for one year, and the cost of tuition is \$1,500 (Column 2).
- Earnings foregone while attending the colleges for one year (opportunity cost) come to \$20,000 (Column 3).
- Together, tuition and earnings foregone cost sum to \$21,500. This represents the out-of-pocket investment made by the student (Column 4).

⁵³ Note that this is a hypothetical example. The numbers used are not based on data collected from an existing institution.

- In return, the student earns \$5,000 more per year than he otherwise would have earned without the education (Column 5).
- The net cash flow (NCF) in Column 6 shows higher earnings (Column 5) less the total cost (Column 4).
- The assumed going rate of interest is 4%, the rate of return from alternative investment schemes for the use of the \$21,500.

Results are expressed in standard investment analysis terms, which are as follows: the net present value, the internal rate of return, the benefit-cost ratio, and the payback period. Each of these is briefly explained below in the context of the cash flow numbers presented in Table A9.1.

Net present value

The student in Table A9.1 can choose either to attend college or to forego post-secondary education and maintain his present employment. If he decides to enroll, certain economic implications unfold. Tuition and fees must be paid, and earnings will cease for one year. In exchange, the student calculates that with post-secondary education, his earnings 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 he adds up higher earnings of \$5,000 per year for the remaining nine years in Table A9.1, 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. Benefits are far lower than \$45,000 because future money is worth less than present money. Costs (tuition plus earnings foregone) are felt immediately because they are incurred today, in the present. Benefits, on the other hand, occur in the future. They are not yet available. All future benefits must be discounted by the going rate of interest (referred to as the discount rate) to be able to express them in present value terms.⁵⁴

Let us take 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. 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 the model to express values on an equal basis in future or present value terms.

⁵⁴ 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 the process is reversed—determining the present value of future earnings.

The goal is to express all future higher earnings in present value terms so that they can be compared to investments incurred today (in this example, tuition plus earnings foregone). As indicated in Table A9.1 the cumulative present value of \$5,000 worth of higher earnings between years 2 and 10 is \$35,753 given the 4% interest rate, far lower than the undiscounted \$45,000 discussed above.

The net present value of the investment is \$14,253. This is simply the present value of the benefits less the present value of the costs, or $\$35,753 - \$21,500 = \$14,253$. In other words, the present value of benefits exceeds the present value of costs by as much as \$14,253. The criterion for an economically worthwhile investment is that the net present value 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 education is very strong.

Internal rate of return

The internal rate of return is another way of measuring the worth of investing in education using the same cash flows shown in Table A9.1. In technical terms, the internal rate of return is a measure of the average earning power of money used over the life of the investment. It is simply the interest rate that makes the net present value equal to zero. In the discussion of the net present value above, the model applies the going rate of interest of 4% and computes a positive net present value of \$14,253. The question now is what the interest rate would have to be in order to reduce the net present value to zero. Obviously, it would have to be higher—18.0% in fact, as indicated in Table A9.1. Or, if a discount rate of 18.0% were applied to the net present value calculations instead of the 4%, then the net present value would reduce to zero.

What does this mean? The internal rate of return of 18.0% defines a breakeven solution—the point where the present value of benefits just equals the present value of costs, or where the net present value equals zero. Or, at 18.0%, higher earnings of \$5,000 per year for the next nine years will earn back all investments of \$21,500 made plus pay 18.0% for the use of that money (\$21,500) in the meantime. Is this a good return? Indeed, it is. If it is compared to the 4% going rate of interest applied to the net present value calculations, 18.0% is far higher than 4%. It may be concluded, therefore, that the investment in this case is solid. Alternatively, comparing the 18.0% rate of return to the long-term 10% rate or so obtained from investments in stocks and bonds also indicates that the investment in education is strong relative to the stock market returns (on average).

Benefit-cost ratio

The benefit-cost ratio is simply the present value of benefits divided by present value of costs, or $\$35,753 \div \$21,500 = 1.7$ (based on the 4% discount rate). Of course, any change in the discount rate would also change the benefit-cost ratio. Applying the 18.0% internal rate of return discussed above would reduce the benefit-cost ratio to 1.0, the breakeven solution where benefits just equal costs.

Applying a discount rate higher than the 18.0% would reduce the ratio to lower than 1.0, 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 ten-year time period.

Payback period

This is the length of time from the beginning of the investment (consisting of tuition and earnings foregone) until higher future earnings give a return on the investment made. For the student in Table A9.1, it will take roughly 4.2 years of \$5,000 worth of higher earnings to recapture his investment of \$1,500 in tuition and the \$20,000 in earnings foregone while attending the colleges. Higher earnings that occur beyond 4.2 years are the returns 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, the stronger the investment.

The investment analysis in Chapter 3 weighs the benefits generated by the colleges against the state and local taxpayer funding that the colleges receive to support their operations. An important part of this analysis is factoring out the benefits that the colleges would have been able to generate anyway, even without state and local taxpayer support. This adjustment is used to establish a direct link between what taxpayers pay and what they receive in return. If the colleges are able to generate benefits without taxpayer support, then it would not be a true investment.⁵⁵

The overall approach includes a sub-model that simulates the effect on student enrollment if the colleges lose their state and local funding and have to raise student tuition and fees in order to stay open. If the colleges can still operate without state and local support, then any benefits they generate at that level are discounted from total benefit estimates. If the simulation indicates that the colleges cannot stay open, however, then benefits are directly linked to costs, and no discounting applies. This appendix documents the underlying theory behind these adjustments.

State and local government support versus student demand for education

Figure A10.1 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 student tuition and fees. Enrollment is measured in terms of total credit hour equivalents (CHEs) and expressed as a percentage of the colleges' current CHE production. Current student tuition and fees are represented by p' , and state and local government support covers $C\%$ of all costs. At this point in the analysis, it is assumed that the colleges have only two sources of revenues: 1) student tuition and fees and 2) state and local government support.

Figure A10.2 shows another important reference point in the model—where state and local government support is 0% , student tuition and fees are increased to p'' , and CHE production is at $Z\%$ (less than 100%). The reduction in CHEs reflects the price elasticity of the students' demand for education, i.e., the extent to which the students' decision to attend the colleges is affected by the change in tuition and

⁵⁵ Of course, as public training providers, the colleges would not be permitted to continue without public funding, so the situation in which they would lose all state support is entirely hypothetical. The purpose of the adjustment factor is to examine the colleges in standard investment analysis terms by netting out any benefits they may be able to generate that are not directly linked to the costs of supporting them.

fees. Ignoring for the moment those issues concerning the colleges' minimum operating scale (considered below in the section called "Calculating benefits at the shutdown point"), the implication for the investment analysis is that benefits to state and local government must be adjusted to net out the benefits that the colleges can provide absent state and local government support, represented as $Z\%$ of the colleges' current CHE production in Figure A10.2.

Figure A10.1: STUDENT DEMAND AND GOVERNMENT FUNDING BY TUITION AND FEES

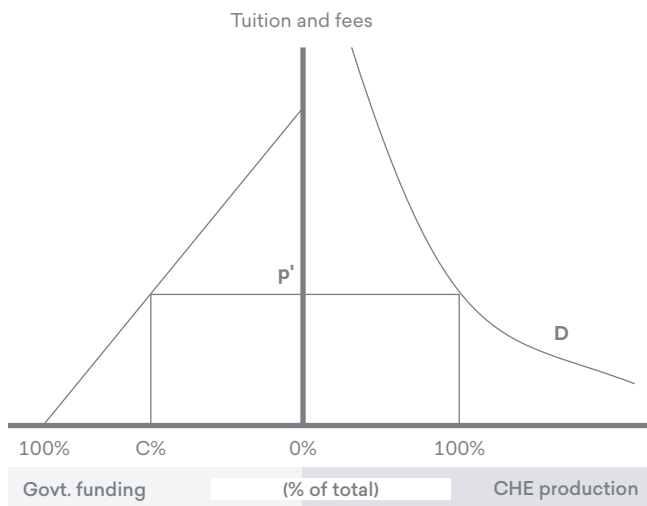
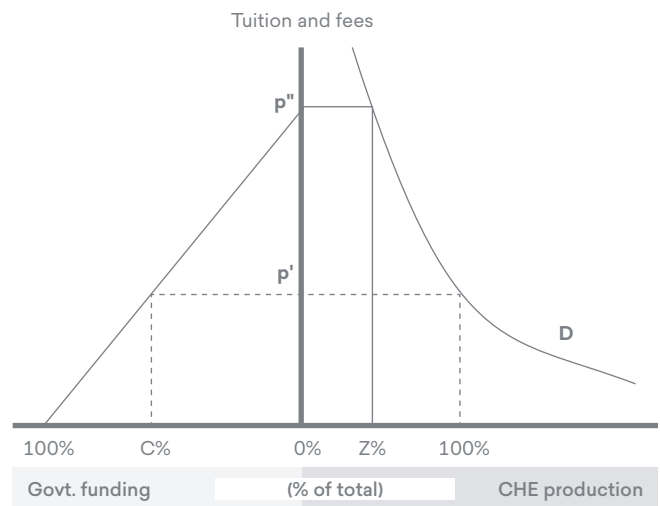


Figure A10.2: CHE PRODUCTION AND GOVERNMENT FUNDING BY TUITION AND FEES



To clarify the argument, it is useful to consider the role of enrollment in the larger benefit-cost model. Let B equal the benefits attributable to state and local government support. The analysis derives all benefits as a function of student enrollment, measured in terms of CHEs produced. For consistency with the graphs in this appendix, B is expressed as a function of the percent of the colleges' current CHE production. Equation 1 is thus as follows:

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

This reflects the total benefits generated by enrollments at their current levels.

Consider benefits now with reference to Z . The point at which state and local government support is zero nonetheless provides for $Z\%$ (less than 100%) of the current enrollment, and benefits are symbolically indicated by the following equation:

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

Inasmuch as the benefits in equation 2 occur with or without state and local government support, the benefits appropriately attributed to state and local government support are given by equation 3 as follows:

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

Calculating benefits at the shutdown point

Colleges and universities cease to operate when the revenue they receive from the quantity of education demanded is insufficient to justify their continued operations. This is commonly known in economics as the shutdown point.⁵⁶ The shutdown point is introduced graphically in Figure A10.3 as $S\%$. The location of point $S\%$ indicates that the colleges can operate at an even lower enrollment level than $Z\%$ (the point at which the colleges receive zero state and local government funding). State and local government support at point $S\%$ is still zero, and student tuition and fees have been raised to p''' . State and local government support is thus credited with the benefits given by equation 3, or $B = B(100\%) - B(Z\%)$. With student tuition and fees still higher than p''' , the colleges would no longer be able to attract enough students to keep their doors open, and they would shut down.

Figure A10.4 illustrates yet another scenario. Here, the shutdown point occurs at a level of CHE production 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 colleges 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 with all the benefits generated by the colleges' CHE production, or $B = B(100\%)$.

Figure A10.3:
SHUTDOWN POINT AFTER ZERO GOVERNMENT FUNDING

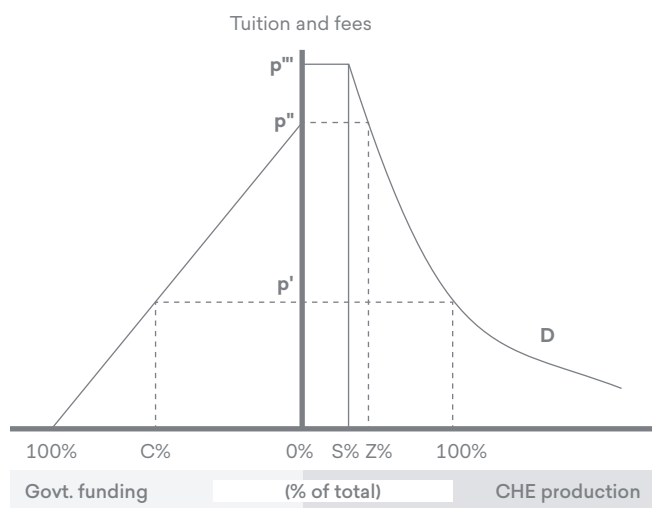
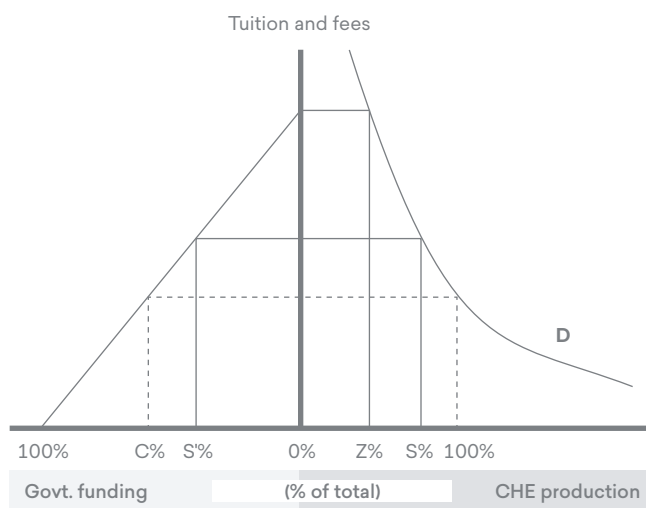


Figure A10.4:
SHUTDOWN POINT BEFORE ZERO GOVERNMENT FUNDING



⁵⁶ In the traditional sense, the shutdown point applies to firms seeking to maximize profits and minimize losses. Although profit maximization is not the primary aim of colleges and universities, the principle remains the same, i.e., that there is a minimum scale of operation required in order for colleges and universities to stay open.

Education has a predictable and positive effect on a diverse array of social benefits. These, when quantified in dollar terms, represent significant social savings that directly benefit society communities and citizens throughout the county, including taxpayers. In this appendix we discuss the following three main benefit categories: 1) improved health, 2) reductions in crime, and 3) reduced demand for government-funded income assistance.

It is important to note that the data and estimates presented here should not be viewed as exact, but rather as indicative of the positive impacts of education on an individual's quality of life. The process of quantifying these impacts requires a number of assumptions to be made, creating a level of uncertainty that should be borne in mind when reviewing the results.

Health

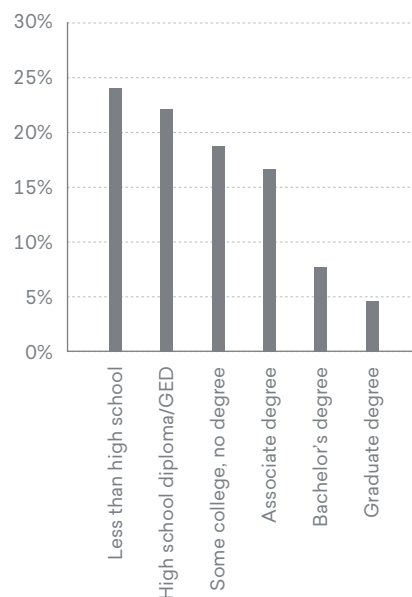
Statistics show a correlation between increased education and improved health. The manifestations of this are found in five health-related variables: smoking, alcohol dependence, obesity, depression, and drug abuse. There are other health-related areas that link to educational attainment, but these are omitted from the analysis until we can invoke adequate (and mutually exclusive) databases and are able to fully develop the functional relationships between them.

SMOKING

Despite a marked decline over the last several decades in the percentage of U.S. residents who smoke, a sizeable percentage of the U.S. population still smokes. The negative health effects of smoking are well documented in the literature, which identifies smoking as one of the most serious health issues in the U.S.

Figure A11.1 shows the prevalence of cigarette smoking among adults, 25 years and over, based on data provided by the National Health Interview Survey.⁵⁷ The data include adults who reported smoking more than 100 cigarettes during their lifetime and who, at the time of interview, reported smoking every day or some days. As indicated, the percent of who smoke begins to decline beyond the level of high school education.

Figure A11.1: PREVALENCE OF SMOKING AMONG U.S. ADULTS BY EDUCATION LEVEL



Source: Centers for Disease Control and Prevention.

57 Centers for Disease Control and Prevention. "Table. Characteristics of current adult cigarette smokers," National Health Interview Survey, United States, 2016.

The Centers for Disease Control and Prevention (CDC) reports the percentage of adults who are current smokers by state.⁵⁸ We use this information to create an index value by which we adjust the national prevalence data on smoking to each state. For example, 11.2% of California adults were smokers in 2018, relative to 15.9% for the nation. We thus apply a scalar of 0.70 to the national probabilities of smoking in order to adjust them to the state of California.

ALCOHOL DEPENDENCE

Although alcohol dependence has large public and private costs, it is difficult to measure and define. There are many patterns of drinking, ranging from abstinence to heavy drinking. Alcohol abuse is riddled with social costs, including health care expenditures for treatment, prevention, and support; workplace losses due to reduced worker productivity; and other effects.

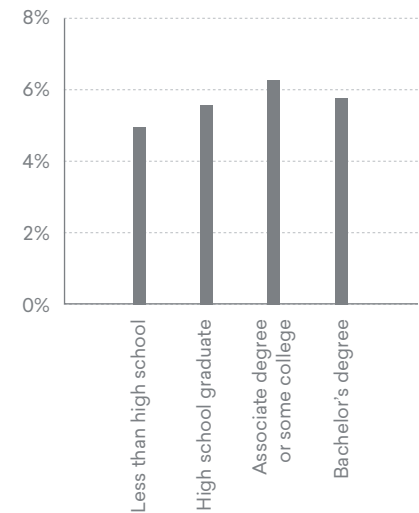
Figure A11.2 compares the percentage of adults, 18 and older, that abuse or depend on alcohol by education level, based on data from the Substance Abuse and Mental Health Services Administration (SAMHSA).⁵⁹ These statistics give an indication of the correlation between education and the reduced probability of alcohol dependence. Adults with an associate degree or some college have higher rates of alcohol dependence than adults with a high school diploma or lower. Prevalence rates are lower for adults with a bachelor's degree or higher than those with an associate degree or some college. Although the data do not maintain a pattern of decreased alcohol dependence at every level of increased education, we include these rates in our model to ensure we provide a comprehensive view of the social benefits and costs correlated with education.

OBESITY

The rise in obesity and diet-related chronic diseases has led to increased attention on how expenditures relating to obesity have increased in recent years. The average cost of obesity-related medical conditions is calculated using information from the *Journal of Occupational and Environmental Medicine*, which reports incremental medical expenditures and productivity losses due to excess weight.⁶⁰

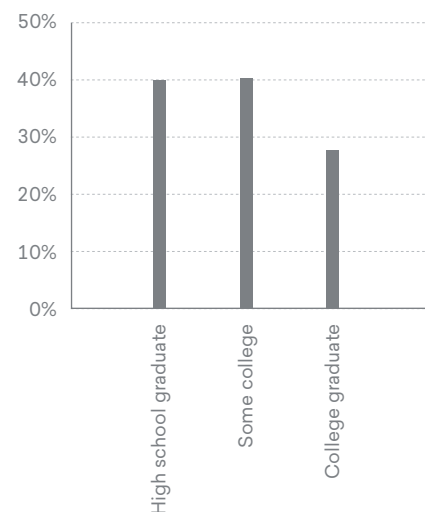
Data for Figure A11.3 is derived from the National Center for Health Statistics which shows the prevalence of obesity among adults aged 20 years and over by education, gender, and ethnicity.⁶¹ As indicated, college graduates are less likely to be obese than individuals with a high school diploma. However, the prevalence

Figure A11.2: PREVALENCE OF ALCOHOL DEPENDENCE OR ABUSE BY EDUCATION LEVEL



Source: Centers for Disease Control and Prevention.

Figure A11.3: PREVALENCE OF OBESITY BY EDUCATION LEVEL



Source: Derived from data provided by the National Center for Health Statistics.

58 Centers for Disease Control and Prevention. "Current Cigarette Use Among Adults (Behavior Risk Factor Surveillance System) 2018." *Behavioral Risk Factor Surveillance System Prevalence and Trends Data, 2018*.

59 Substance Abuse and Mental Health Services Administration. "Table 5.4B—Alcohol Use Disorder in Past Year among Persons Aged 12 or Older, by Age Group and Demographic Characteristics: Percentages, 2017 and 2018." SAMHSA, Center for Behavioral Health Statistics and Quality, National Survey on Drug Use and Health, 2017 and 2018.

60 Eric A. Finkelstein, Marco da Costa DiBonaventura, Somali M. Burgess, and Brent C. Hale, "The Costs of Obesity in the Workplace," *Journal of Occupational and Environmental Medicine* 52, no. 10 (October 2010): 971-976.

61 Ogden Cynthia L., Tala H. Fakhouri, Margaret D. Carroll, Craig M. Hales, Cheryl D. Fryar, Xianfen Li, David S. Freedman. "Prevalence of Obesity Among Adults, by Household Income and Education—United States, 2011–2014" National Center for Health Statistics, *Morbidity and Mortality Weekly Report*, 66:1369–1373 (2017).

of obesity among adults with some college is actually greater than those with just a high school diploma. In general, though, obesity tends to decline with increasing levels of education.

DEPRESSION

Capturing the full economic cost of mental illness is difficult because not all mental disorders have a correlation with education. For this reason, we only examine the economic costs associated with major depressive disorder (MDD), which are comprised of medical and pharmaceutical costs, workplace costs such as absenteeism, and suicide-related costs.⁶²

Figure A11.4 summarizes the prevalence of MDD among adults by education level, based on data provided by the CDC.⁶³ As shown, people with some college are most likely to have MDD compared to those with other levels of educational attainment. People with a high school diploma or less, along with college graduates, are all fairly similar in the prevalence rates.

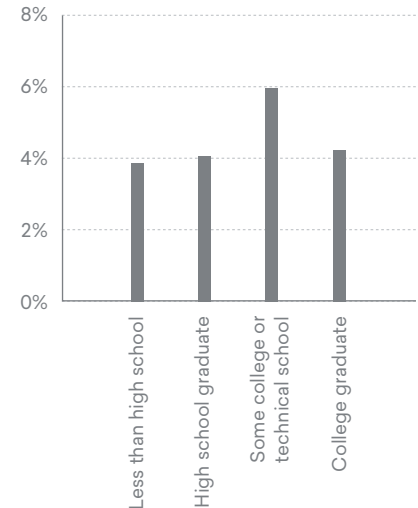
DRUG ABUSE

The burden and cost of illicit drug abuse is enormous in the U.S., but little is known about the magnitude of costs and effects at a national level. What is known is that the rate of people abusing drugs is inversely proportional to their education level. The higher the education level, the less likely a person is to abuse or depend on illicit drugs. The probability that a person with less than a high school diploma will abuse drugs is 3.9%, twice as large as the probability of drug abuse for college graduates (1.7%). This relationship is presented in Figure A11.5 based on data supplied by SAMHSA.⁶⁴ Similar to alcohol abuse, prevalence does not strictly decline at every education level. Health costs associated with illegal drug use are also available from SAMSHA, with costs to state and local government representing 40% of the total cost related to illegal drug use.⁶⁵

Crime

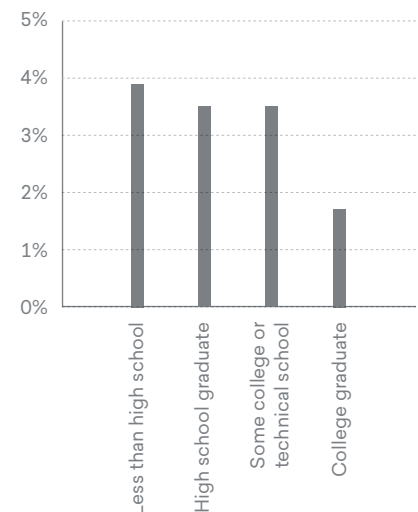
As people achieve higher education levels, they are statistically less likely to commit crimes. The analysis identifies the following three types of crime-related expenses: 1) criminal justice expenditures, including police protection, judicial

Figure A11.4: PREVALENCE OF MAJOR DEPRESSIVE EPISODE BY EDUCATION LEVEL



Source: National Survey on Drug Use and Health.

Figure A11.5: PREVALENCE OF ILLICIT DRUG DEPENDENCE OR ABUSE BY EDUCATION LEVEL



Source: Substance Abuse and Mental Health Services Administration.

62 Greenberg, Paul, Andree-Anne Fournier, Tammy Sisitsky, Crystal Pike, and Ronald Kessler. "The Economic Burden of Adults with Major Depressive Disorder in the United States (2005 and 2010)" *Journal of Clinical Psychiatry* 76:2, 2015.

63 National Survey on Drug Use and Health. "Table 8.40B: Major Depressive Episode (MDE) or MDE with Severe Impairment in Past Year among Persons Aged 18 or Older, and Receipt of Treatment for Depression in Past Year among Persons Aged 18 or Older with MDE or MDE with Severe Impairment in Past Year, by Geographic, Socioeconomic, and Health Characteristics: Numbers in Thousands, 2017 and 2018."

64 Substance Abuse and Mental Health Services Administration. "Table 5.3B—Illicit Drug Use Disorder in Past Year among Persons Aged 12 or Older, by Age Group and Demographic Characteristics: Percentages, 2017 and 2018." SAMHSA, Center for Behavioral Health Statistics and Quality, National Survey on Drug Use and Health, 2017 and 2018.

65 Substance Abuse and Mental Health Services Administration. "Table A.2. Spending by Payer: Levels and Percent Distribution for Mental Health and Substance Abuse (MHSA), Mental Health (MH), Substance Abuse (SA), Alcohol Abuse (AA), Drug Abuse (DA), and All-Health, 2014." *Behavioral Health Spending & Use Accounts, 1986–2014*. HHS Publication No. SMA-16-4975, 2016.

and legal, and corrections, 2) victim costs, and 3) productivity lost as a result of time spent in jail or prison rather than working.

Figure A11.6 displays the educational attainment of the incarcerated population in the U.S. Data are derived from the breakdown of the inmate population by education level in federal, state, and local prisons as provided by the U.S. Census Bureau.⁶⁶

Victim costs comprise material, medical, physical, and emotional losses suffered by crime victims. Some of these costs are hidden, while others are available in various databases. Estimates of victim costs vary widely, attributable to differences in how the costs are measured. The lower end of the scale includes only tangible out-of-pocket costs, while the higher end includes intangible costs related to pain and suffering.⁶⁷

Yet another measurable cost is the economic productivity of people who are incarcerated and are thus not employed. The measurable productivity cost is simply the number of additional incarcerated people, who could have been in the labor force, multiplied by the average income of their corresponding education levels.

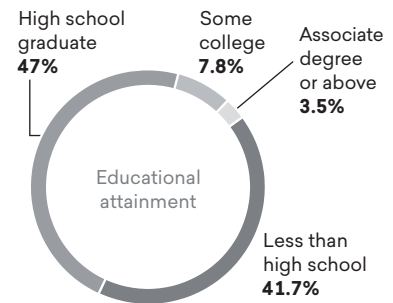
Income assistance

Statistics show that as education levels increase, the number of applicants for government-funded income assistance such as welfare and unemployment benefits declines. Welfare and unemployment claimants can receive assistance from a variety of different sources, including Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Medicaid, Supplemental Security Income (SSI), and unemployment insurance.⁶⁸

Figure A11.7 relates the breakdown of TANF recipients by education level, derived from data provided by the U.S. Department of Health and Human Services.⁶⁹ As shown, the demographic characteristics of TANF recipients are weighted heavily towards the less than high school and high school categories, with a much smaller representation of individuals with greater than a high school education.

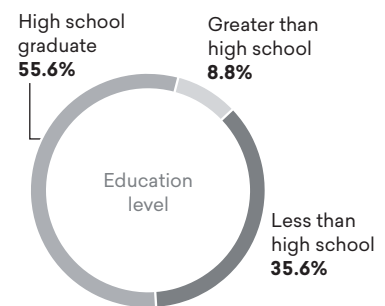
Unemployment rates also decline with increasing levels of education, as illustrated in Figure A11.8. These data are provided by the Bureau of Labor Statistics.⁷⁰ As shown, unemployment rates range from 5.4% for those with less than a high school diploma to 1.9% for those at the graduate degree level or higher.

Figure A11.6: EDUCATIONAL ATTAINMENT OF THE INCARCERATED POPULATION



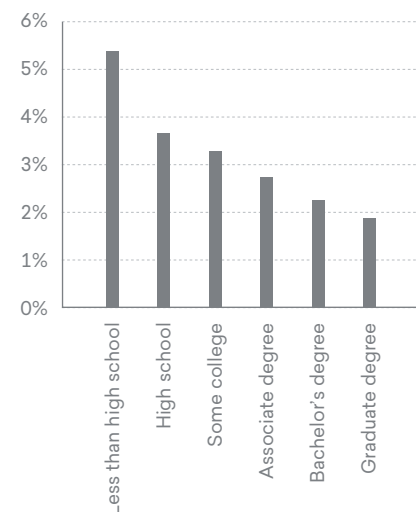
Source: Derived from data provided by the U.S. Census Bureau.

Figure A11.7: BREAKDOWN OF TANF RECIPIENTS BY EDUCATION LEVEL



Source: U.S. Department of Health and Human Services, Office of Family Assistance.

Figure A11.8: UNEMPLOYMENT BY EDUCATION LEVEL



Source: Bureau of Labor Statistics.

66 U.S. Census Bureau. "Educational Characteristics of Prisoners: Data from the ACS." 2011.
 67 McCollister, Kathryn E., Michael T. French, and Hai Fang. "The Cost of Crime to Society: New Crime-Specific Estimates for Policy and Program Evaluation." *Drug and Alcohol Dependence* 108, no. 1-2 (April 2010): 98-109.
 68 Medicaid is not considered in this analysis because it overlaps with the medical expenses in the analyses for smoking, alcohol dependence, obesity, depression, and drug abuse. We also exclude any welfare benefits associated with disability and age.
 69 U.S. Department of Health and Human Services, Office of Family Assistance. "Characteristics and Financial Circumstances of TANF Recipients, Fiscal Year 2018."
 70 Bureau of Labor Statistics. "Table 7. Employment status of the civilian noninstitutional population 25 years and over by educational attainment, sex, race, and Hispanic or Latino ethnicity." Current Population Survey, Labor Force Statistics, Household Data Annual Averages, 2019.