TAXPAYER PERSPECTIVES: THE COMMUNITY COLLEGES OF OREGON

State and local taxpayers earn 19% rate of return on their investment in the Oregon community colleges.

The verdict is in: the Oregon community colleges add more money to the state treasury than they take out. Not only do the colleges pull their own weight, but they also effectively subsidize other sectors funded by the taxpayers. Absent the colleges, taxes would actually have to be raised in order to maintain services in all other sectors at their current levels.

The return on investment is considered from two taxpayer perspectives: broad and narrow. To better appreciate both of these, we develop them more fully below.

Broad Investment Perspective

In the broad perspective we add up all benefits regardless of recipient and compare the total to the investment made in a benefit/cost ratio. If the ratio is less than one, the investment is not worthwhile; if it is greater than one, the investment can be considered sound.

Some examples: a transportation authority justifies a new road by showing that the savings in travel time and vehicle expenses accrued by thousands of drivers exceed the project's cost. Public parks are justified by showing that recreation, scenic and other values accruing to park users exceed the public outlay for park infrastructure, operation, and the net value of extractive resources not used. All benefits are counted, not just those that accrue back to state or local government. This is the hallmark of the broad investment perspective.

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

Thus counted, the benefit/cost ratio for the Oregon community colleges is 32. In other words, the cumulative added value attached to each dollar invested will have a present value of $32 by the end of the students' working career.

Narrow Investment Perspective

The narrow investment perspective counts only benefits that can be entered into the books of state and local government. For example, a portion of higher student earnings will be captured by state and local government in the form of added tax receipts. Additionally, because state and local government bears part of the cost of crime, its budget benefits from education-induced crime reductions. The same holds in varying degrees for the other assorted benefits of an educated populace. The bottom line: while state and local government spends money in support of the Oregon community colleges, it receives benefits in the form of increased tax receipts and an assortment of reduced expenditures or avoided social costs.

Worthwhile public projects routinely generate negative narrow perspective returns. Generally, the role of government is to provide services that the public wants, but the business sector finds unprofitable. Considerable funds are spent on public parks, for example, yet except for entry fees and some concessionaire or special events receipts, no monies directly return to the state or local taxpayers. From a narrow investment perspective, taxpayer returns are negative, and the park is justified by the benefits tracked under the broad perspective.

The important finding of this analysis is that the results are not only strong from the broad perspective but, unlike most government endeavors, the taxpayer investments generate strong results from the narrow perspective as well. Economists generally assume a 4.0% discount rate in analyzing government investments, assuming that governments can obtain unsecured loans at a rate of 4.0% or receive a return of 4.0% on any excess funds were they to be invested. **Since the narrow rate of return for the Oregon community colleges is 19% – greater than 4% – we conclude that the state government actually makes money on the investment.** By funding the colleges, therefore, other beneficiaries of state funding are actually subsidized through the revenues generated by the colleges.