




Analysis of the Economic Impact and Return on Investment of Education

THE ECONOMIC VALUE OF PORTAGE COLLEGE

February 2018

A photograph of a modern brick building at Portage College, with a large blue wave graphic overlaid at the top. The building has large windows and a sign that says "PORTAGE COLLEGE". There are trees and a flagpole in the foreground.

EXECUTIVE SUMMARY

 Emsi

Executive summary

Portage College (PC) creates value in many ways. This study investigates the economic impacts created by PC on the regional economy and the benefits that the College generates in return for the investments made by its key stakeholder groups—students, society, and taxpayers.

The value of Portage College (PC) influences both the lives of students and the Portage Service Region economy. The College serves a range of industries in the Portage Service Region and supplies local businesses with skilled workers. Society as a whole in Alberta benefits from an expanded economy and improved quality of life. The benefits created by PC extend as far as the provincial government, in the form of increased tax revenues and public sector savings.

This study investigates the economic impacts created by PC on the business community and the benefits that the College generates in return for the investments made by its key stakeholder groups—students, society, and taxpayers.

The Portage Service Region consists of census division 12, along with select subdivisions within census divisions 10 and 13 in Alberta. The following two analyses are presented:

- **Economic impact analysis**
- **Investment analysis**

All results reflect student and financial data for fiscal year (FY) 2015-16. Impacts on the regional business community are reported under the economic impact analysis. Results are measured in terms of added income. The returns on investment to students, society, and taxpayers are reported under the investment analysis.



Economic impact analysis

PC promotes economic growth in the Portage Service Region in a variety of ways. The College is an employer and buyer of goods and services, and the living expenses of students benefit local businesses. In addition, PC is a primary source of education to regional residents and a supplier of trained workers to regional industries.

OPERATIONS SPENDING IMPACT

PC is an important employer in the Portage Service Region. In FY 2015-16, the College employed faculty and staff equivalent to 192 full-time employees. All of these employees lived in the Portage Service Region. Total payroll at PC was \$22.9 million, much of which was spent in the region for groceries, eating out, clothing, and other household expenses.

PC is itself a large-scale buyer of goods and services. In FY 2015-16, the College spent \$13.8 million to cover its expenses for facilities, professional services, and supplies.

The total income that PC created during the analysis year as a result of its day-to-day operations was \$30.2 million, which is equivalent to supporting 290 jobs in the region. This figure represents the College’s payroll, the multiplier effects generated by the spending of the College and its employees, and a downward adjustment to account for funding that the College received from local sources.

STUDENT SPENDING IMPACT

Approximately 374 students relocated to the Portage Service Region to attend school at PC in FY 2015-16, including international students. In addition, a number of in-region students would have left the area for other education opportunities if not for the existence of PC. While attending, these relocated and retained students spent \$5 million on groceries, rent, accommodation, transportation, and so on. A significant portion of these expenditures occurred in the region, generating \$863,716 in new income in the economy during the analysis year, equivalent to supporting 20 jobs.

ALUMNI IMPACT

The education and training PC provides for residents in the region results in the greatest impact. As shown in Figure 1, since the College was established, students

TABLE 1: Impacts created by PC in FY 2015-16

ADDED INCOME	JOBS
\$30.2 million	290
Operations spending impact	
\$863,716	20
Student spending impact	
\$79.2 million	752
Alumni impact	
\$110.2 million	1,062
Total impact	



have studied at PC and entered the workforce with newly-acquired skills. Today, thousands of former students are employed in the Portage Service Region.

During the analysis year, former students of PC generated \$79.2 million in added income in the region, equivalent to supporting 752 jobs. This figure represents the higher wages that former students earned during the year, the increased output of the businesses that employed the former students, and the multiplier effects that occurred as former students and their employers spent money at other businesses.

TOTAL IMPACT

The total impact of PC on the regional economy during the analysis year amounted to \$110.2 million, equal to the sum of the operations spending impact, the student spending impact, and the alumni impact. The added income is equal to approximately 2.3% of the region's gross regional product. By comparison, this contribution that the College provides on its own is larger than the entire Professional, Scientific, & Technical Services industry in the region.

The total impact is also expressed in terms of the jobs supported by the added income; they are calculated by jobs-to-sales ratios specific to each industry. PC's impact supported 1,062 jobs in the Portage Service Region economy. For perspective, this means that one out of every 40 jobs in the Portage Service Region is supported by the activities of PC, its students, and alumni.

A portion of the total \$110.2 million is broken out into an industry-by-industry impact ordered by added income. Table 2 outlines the top industries impacted by PC. Because industries have different jobs-to-sales ratios, the associated jobs supported by PC differ by impact. Nonetheless, these are impacts that would not have been generated without the College's presence.



FIGURE 1: PC alumni working in-region today

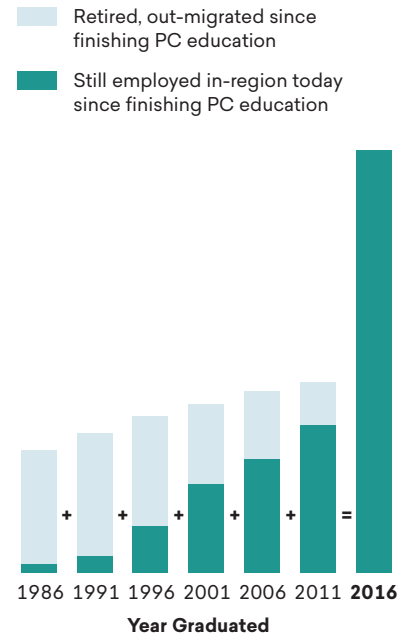


TABLE 2: Top industries impacted by PC

TOTAL INCOME (MILLIONS)	JOBS
\$24.2	113
Utilities	
\$19.5	143
Transportation & Warehousing	
\$18.7	284
Health Care & Social Assistance	
\$2.4	14
Agriculture, Forestry, Fishing, & Hunting	
\$2.4	9
Real Estate & Rental & Leasing	
\$43.0	500
All other industries	
\$110.2	1,062
Total impact	

Investment analysis

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 considered unprofitable. This study considers PC as an investment from the perspectives of students, society, and taxpayers. The backdrop for the analysis is the entire Alberta economy.

STUDENT PERSPECTIVE

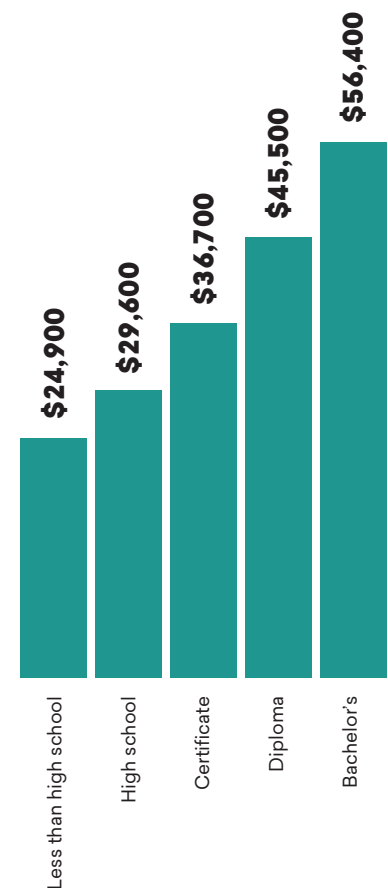
In FY 2015-16, PC served 1,273 credit students and 1,693 non-credit students. In order to attend school, students paid for tuition, fees, books, and supplies. They also gave up money that they would have otherwise earned had they been working instead of attending school. The total investment made by PC's students in FY 2015-16 amounted to \$17.3 million, equal to \$5.3 million in out-of-pocket expenses plus \$12.1 million in forgone time and money.

In return for their investment, PC's students develop the skills required for an increasingly globalised workplace and receive a stream of higher future wages that will continue to grow throughout their working lives. As shown in Figure 2, mean income levels at the midpoint of the average-aged worker's career increase as people achieve higher levels of education. For example, the average diploma graduate from PC will see increased earnings of \$15,900 per year at their career midpoint in Alberta compared to someone with a high school diploma or equivalent. Over a working lifetime, this increase in earnings amounts to an undiscounted value of approximately \$604,200 in higher earnings.

The present value of the higher future wages that PC's students will receive over their working careers is \$79.1 million. Dividing this value by the \$17.3 million in student costs yields a benefit-cost ratio of 4.6. In other words, for every \$1 students invest in PC in the form of out-of-pocket expenses and forgone time and money, they will receive a cumulative of \$4.60 in higher future wages. The return on investment to students (i.e., the benefit-cost ratio less the cost of the original investment) thus comes to \$3.60 in benefits returned over and above every \$1 in costs.

The average annual rate of return for students is 21.1%. This is a favourable return compared, for example, to the less than 1% return per annum that is generally expected from saving money in today's standard bank savings accounts.

FIGURE 2: Average earnings by education level for PC students at career midpoint in Alberta



Source: Derived from data supplied by Statistics Canada and the Emsi CRIQ model.

SOCIAL PERSPECTIVE

PC aims to improve the socioeconomic well-being of the local and provincial community by increasing students' earning potential and by positively influencing the health and lifestyle habits of students. As a result, society as a whole in Alberta benefits from the presence of PC in two major ways. The first and largest benefit is the added income created in the province. As discussed in the previous section, students earn more because of the skills they acquire while attending PC. Businesses also earn more because the enhanced skills of students make them more productive. Together, higher student wages and increased business output stimulate increases in income across the province, thereby raising prosperity in Alberta and expanding the economic base for society as a whole.

Benefits to society also consist of the savings generated by the improved lifestyles of former students. Education is statistically correlated with a variety of lifestyle changes that generate social savings across three main categories: 1) health, 2) crime, and 3) income assistance. Health savings include avoided medical costs associated with smoking, alcoholism, obesity, and mental illness. Crime savings include reduced criminal justice system expenditures, lower victim costs, and increased productivity of individuals who are working rather than spending time in custody. Income assistance savings include the reduced demand for employment insurance benefits and employment-related social assistance.

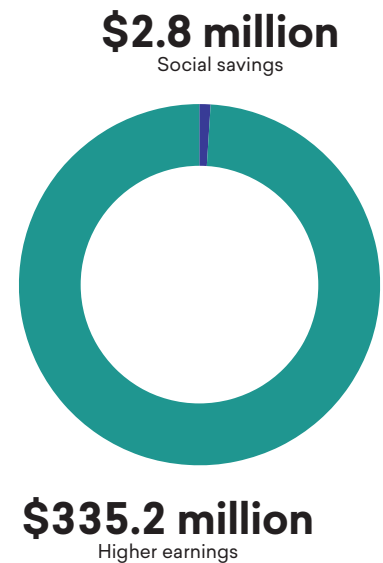
Figure 3 shows the present value of the added income and social savings that will occur in Alberta over the working lifetimes of PC's FY 2015-16 students. Added income amounts to a present value of \$335.2 million due to the increased lifetime incomes of students and associated increases in business output. Social savings amount to \$2.8 million, the sum of health, crime, and income assistance savings in Alberta. Altogether, total benefits to society equal \$338 million (in present value terms).

Society invested \$49.8 million in PC education during the analysis year. This includes all expenditures by PC, all student expenditures, and all student opportunity costs. For every \$1 of this investment, society as a whole in Alberta will receive a cumulative value of \$6.80 in benefits, equal to the \$338 million in benefits divided by the \$49.8 million in costs. These benefits will occur for as long as PC's FY 2015-16 students remain employed in the provincial workforce.

TAXPAYER PERSPECTIVE

From the taxpayer perspective, benefits consist primarily of the taxes that provincial government will collect from the added income created in the province. As PC's FY 2015-16 students earn more, they will make higher tax payments. Employers will also make higher tax payments as they increase their output and purchase more supplies and services. By the end of the students' working careers, provincial government will have collected a present value of \$56.7 million in added taxes.

FIGURE 3: Present value of higher earnings and social savings in Alberta



A portion of the savings enjoyed by society also accrues to provincial taxpayers. Former students are more employable, so the demand for income assistance reduces. Improved health habits lower the former students' demand for provincial health care services. Former students are also less likely to commit crimes, so the demand for law enforcement services reduces. All of these benefits will generate a present value of \$1.1 million in savings to provincial taxpayers.

Total benefits to taxpayers are \$57.8 million, equal to the sum of the added taxes and public sector savings. Comparing this to the taxpayer costs of \$27 million—equal to the funding that PC received from provincial government during the analysis year—yields a benefit-cost ratio of 2.1. This means that for every \$1 of public money invested in PC, taxpayers receive a cumulative value of \$2.10 over the course of the former students' working lives. In other words, taxpayers fully recover the cost of the original investment and also receive a return of \$1.10 in addition to every \$1 they paid. The rate of return is 10.4%, a solid investment that compares favourably with other long-term investments in both the private and public sectors.

SUMMARY OF INVESTMENT ANALYSIS RESULTS

Table 3 presents the results of the investment analysis for all three of PC's major stakeholder groups—students, society, and taxpayers. As shown, students receive great value for their educational investment. At the same time, the investment made by provincial taxpayers to the College creates a wide range of benefits to society and returns more to government budgets than it costs.

TABLE 3: Summary of investment analysis results

	STUDENT PERSPECTIVE	SOCIAL PERSPECTIVE	TAXPAYER PERSPECTIVE
Present value benefits (thousands)	\$79,079	\$338,015	\$57,815
Present value costs (thousands)	\$17,324	\$49,784	\$26,963
Net present value (thousands)	\$61,755	\$288,231	\$30,852
Benefit-cost ratio	4.6	6.8	2.1
Rate of return	21.1%	N/A*	10.4%

* 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.

Conclusion

The results of this study demonstrate that PC creates value from multiple perspectives. The College benefits local businesses by increasing consumer spending in the region and supplying a steady flow of qualified, trained workers into the workforce. It enriches the lives of students by raising their lifetime incomes and helping them achieve their individual potential. It benefits society as a whole in Alberta by creating a more prosperous economy and generating a variety of savings through the improved lifestyles of students. Finally, it benefits provincial taxpayers through increased tax receipts across the province and a reduced demand for government-supported social services.

ABOUT THE STUDY

Data and assumptions used in the study are based on several sources, including the FY 2015-16 academic and financial reports from PC, industry and employment data from Statistics Canada, outputs of Emsi's input-output model, and a variety of studies and surveys relating education to social behaviour. The study applies a conservative methodology and follows standard practice using only the most recognised indicators of investment effectiveness and economic impact. For a full description of the data and approach used in the study, please contact the College for a copy of the main report.



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