



DEMONSTRATING THE COLLECTIVE ECONOMIC VALUE OF

NORTH CAROLINA COMMUNITY COLLEGES



emsi

CONTENTS

ACKNOWLEDGMENTS	4
EXECUTIVE SUMMARY	5
Economic Impact Analysis	5
Investment Analysis	6
INTRODUCTION	8
CHAPTER 1: NORTH CAROLINA COMMUNITY COLLEGES & THE ECONOMY	10
1.1 Employee and financial data for North Carolina Community Colleges	10
1.2 The North Carolina economy	12
CHAPTER 2: ECONOMIC IMPACTS ON THE NORTH CAROLINA ECONOMY	16
2.1 Operations spending impact	17
2.2 Construction spending impact	20
2.3 Student spending impact	21
2.4 Alumni impact	23
2.5 Total impact of North Carolina Community Colleges	26
CHAPTER 3: INVESTMENT ANALYSIS	28
3.1 Student perspective	28
3.2 Societal perspective	34
3.3 Taxpayer perspective	39
3.4 Conclusion	40
CHAPTER 4: SENSITIVITY ANALYSIS	43
4.1 Alternative education variable	43
4.2 Labor import effect variable	44

4.3 Student employment variables	44
4.4 Discount rate	46
RESOURCES & REFERENCES	48
APPENDIX 1: NORTH CAROLINA COMMUNITY COLLEGES	55
APPENDIX 2: GLOSSARY OF TERMS	56
APPENDIX 3: EMSI MR-SAM	58
A3.1 Data sources for the model	58
A3.2 Overview of the MR-SAM model	60
A3.3 Components of the EMSI MR-SAM model	61
APPENDIX 4: VALUE PER CREDIT HOUR EQUIVALENT & THE MINCER FUNCTION	63
A3.1 Value per CHE	63
A3.2 Mincer function	64
APPENDIX 5: ALTERNATIVE EDUCATION VARIABLE	66
APPENDIX 6: OVERVIEW OF INVESTMENT ANALYSIS MEASURES	67
A6.1 Net present value	68
A6.2 Internal rate of return	69
A5.3 Benefit-cost ratio	69
A6.4 Payback period	69
APPENDIX 7: SOCIETAL EXTERNALITIES	70
A7.1 Health	70
A7.2 Crime	73
A7.3 Welfare and unemployment	74

ACKNOWLEDGMENTS

Economic Modeling Specialists International (EMSI) gratefully acknowledges the excellent support of the staff at North Carolina Community Colleges in making this study possible. Special thanks go to Bill Schneider, Associate Vice President, Research and Performance Management, for serving as the liaison between the colleges and EMSI. We would also like to thank the individual research teams at the colleges for their time and effort collecting the data and information requested. Any errors in the report are the responsibility of EMSI and not of any of the above-mentioned institutions or individuals.

EXECUTIVE SUMMARY

The purpose of this report is to assess the collective impact of North Carolina Community Colleges on the state economy and the benefits generated by the colleges for students, society, and taxpayers. The results of this study show that North Carolina Community Colleges create a positive net impact on the state economy and generate a positive return on investment for students, society, and taxpayers.

ECONOMIC IMPACT ANALYSIS

During the analysis year, North Carolina Community Colleges spent **\$1.3 billion** on payroll and benefits for **45,688** full-time and part-time employees, and spent another **\$860.9 million** on goods and services to carry out their day-to-day operations. This initial round of spending creates more spending across other businesses throughout the state economy, resulting in the commonly referred to multiplier effects. This analysis estimates the net economic impact of North Carolina Community Colleges that directly takes into account the fact that state and local dollars spent on the colleges could have been spent elsewhere in the state if not directed towards them and 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 North Carolina Community Colleges.

This analysis shows that in FY 2012-13, payroll and operations spending of North Carolina Community Colleges, together with the spending of their students and alumni, cre-

ated **\$21.5 billion** in added state income to the North Carolina economy. Although we use the terminology **added state income** to refer to the economic impacts, it is helpful to realize that state income in this context is equivalent to the commonly referred to measure of Gross State Product. The added state income, or additional Gross State Product, of **\$21.5 billion** created by North Carolina Community Colleges is equal to approximately **4.9%** of the total Gross State Product of North Carolina, and is equivalent to creating **375,254** new jobs. These economic impacts break down as follows:

Operations spending impact

Payroll to support day-to-day operations of North Carolina Community Colleges amounted to **\$1.3 billion**. The net impact of the colleges' operations spending in North Carolina during the analysis year was approximately **\$1.7 billion** in added state income, which is equivalent to creating **49,366** new jobs.

Construction spending impact

North Carolina Community Colleges spend millions of dollars on construction each year to maintain their facilities, create additional

capacities, and meet their growing educational demands. While the amount varies from year to year, these quick infusions of income and jobs have a substantial impact on the state economy. In FY 2012-13, the construction spending of North Carolina Community Colleges created **\$37.0 million** in added state income, which is equivalent to creating **1,354** new jobs.

Student spending impact

Around **3%** of graduate and undergraduate students attending North Carolina Community Colleges originated from outside the state. Some of these students relocated to North Carolina and spent money on groceries, transportation, rent, and so on at state businesses.

The expenditures of students who relocated to the state during the analysis year added approximately **\$138.7 million** in state income for the North Carolina economy, which is equivalent to creating **2,529** new jobs.

Alumni impact

Over the years, students gained new skills, making them more productive workers, by studying at North Carolina Community Colleges. Today, hundreds of thousands of these former students are employed in North Carolina.

The accumulated contribution of former students currently employed in the North Carolina workforce amounted to **\$19.6 billion**

in state income added to the North Carolina economy, which is equivalent to creating **322,005** new jobs.

INVESTMENT ANALYSIS

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 North Carolina Community Colleges as an investment from the perspectives of students, society, and taxpayers.

Student perspective

Students invest their own money and time in their education. Students enrolled at North Carolina Community Colleges paid a total of **\$502.4 million** to cover the cost of tuition, fees, books, and supplies at North Carolina Community Colleges in FY 2012-13. They also forwent **\$4.4 billion** in earnings that they would have generated had they been working instead of learning. In return, students will receive a present value of **\$11.5 billion** in increased earnings over their working lives. This translates to a return of **\$2.30** in higher future income for every \$1 that students pay for their education at North Carolina Community Colleges. The corresponding annual rate of return is **12.0%**.

NOTE OF IMPORTANCE

There is an important point to consider when reviewing the impacts estimated in this study. Impacts are reported in the form of income rather than output. Output includes all the intermediary costs associated with producing goods and services. Income, on the other hand, is a net measure that excludes these intermediary costs and is synonymous with gross state product. For this reason, it is a more meaningful measure of new economic activity than output.

Societal perspective

North Carolina as a whole spent **\$6.9 billion** on educations at North Carolina Community Colleges in FY 2012-13. This includes **\$2.2 billion** in expenses by North Carolina Community Colleges, **\$286 million** in student expenses, and **\$4.4 billion** in student opportunity costs. In return, the state of North Carolina will receive a present value of **\$54.7 billion** in added state income over the course of the students' working lives. North Carolina will also benefit from **\$1.2 billion** in present value societal savings related to reduced crime, lower welfare and unemployment, and increased health and well-being across the state. For every dollar society invests in an education from North Carolina Community Colleges, an average of **\$8.10** in benefits will accrue to North Carolina over the course of the students' careers.

Taxpayer perspective

Taxpayers provided **\$1.4 billion** of state and local funding to North Carolina Community Colleges in FY 2012-13. In return, taxpayers will receive a present value of **\$5.2 billion** in added tax revenue stemming from the students' higher lifetime incomes and the increased output of businesses amounts. Savings to the public sector add another **\$376.5 million** in benefits due to a reduced demand for government-funded social services in North Carolina. For every taxpayer dollar spent on educations from North Carolina Community Colleges, taxpayers will receive an average of **\$4.10** in return over the course of the students' working lives. In other words, taxpayers enjoy an annual rate of return of **14.7%**.

INTRODUCTION

This study considers the 58 North Carolina Community Colleges.¹ While the colleges may have very different missions, they all have an important impact on the students they serve. They help students achieve their individual potential and develop the skills they need in order to have a fulfilling and prosperous career. However, the impact of North Carolina Community Colleges consists of more than influencing the lives of students. The colleges' program offerings supply employers with workers to make their businesses more productive. The spending of the colleges and their employees and students support the state economy through the output and employment generated by state vendors. The benefits created by the colleges 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.

The purpose of this report is to assess the collective impact of North Carolina Community Colleges on the state economy and the benefits generated by the colleges for students, society, and taxpayers. The approach is twofold. We begin with an economic impact analysis that measures the impacts generated by the colleges on the North Carolina economy. To derive results, we rely on a specialized Social Accounting Matrix (SAM) model to calculate the additional income and jobs created in the North Carolina 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 four impacts:

1. Impact of **operations spending**
2. Impact of **construction spending**
3. Impact of **student spending**
4. Impact of **alumni** employed in the North Carolina workforce.

The second component of the study measures the benefits generated by North Carolina Community Colleges for the following stakeholder groups: students, taxpayers, and society. For students, we perform an investment

¹ Please refer to Appendix 1 for a list of the member colleges.

analysis to determine how the money spent by students on their education performs as an investment over time. The students' investment in this case consists of their out-of-pocket expenses and the opportunity cost of attending the colleges as opposed to working. In return for these investments, students receive a lifetime of higher incomes. 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 students' higher incomes

and improved quality of life create benefits throughout North Carolina as a whole.

A wide array of data are used in the study based on several sources, including the 2012-13 IPEDS academic and financial reports from North Carolina Community Colleges, industry and employment data from the U.S. Bureau of Labor Statistics and U.S. Census Bureau, outputs of EMSI's education impact model, outputs of EMSI's SAM model, and a variety of published materials relating education to social behavior.

1 NORTH CAROLINA COMMUNITY COLLEGES & THE ECONOMY

The study uses two general types of information: 1) data collected from the colleges and 2) state economic data obtained from various public sources and EMSI's proprietary data modeling tools.² This section presents the basic underlying institutional information used in this analysis and provides an overview of the North Carolina economy.

1.1 EMPLOYEE AND FINANCIAL DATA FOR NORTH CAROLINA COMMUNITY COLLEGES

1.1.1 Employee data

Data provided by North Carolina Community Colleges include information on faculty and staff by place of work and by place of residence. These data appear in Table 1.1. As shown, North Carolina Community Colleges employed 16,617 full-time and 29,071 part-time faculty and staff in FY 2012-13. These headcounts include student workers. Of these, 100% worked in the state and 98% lived in the state. These data are used to isolate the portion of the employees' payroll and household expenses that remains in the state economy.

1.1.2 Revenues

Table 1.2 shows the colleges' annual revenues by funding source – totaling \$2.3 billion in FY 2012-13. These include revenues for general

TABLE 1.1: EMPLOYEE DATA, FY 2012-13

Full-time faculty and staff	16,617
Part-time faculty and staff	29,071
Total faculty and staff	45,688
% of employees that work in state	100%
% of employees that live in state	98%

Source: Data supplied by North Carolina Community Colleges.

TABLE 1.2: REVENUE BY SOURCE, FY 2012-13

FUNDING SOURCE	TOTAL	% OF TOTAL
Tuition and fees	\$216,322,672	9%
Local government*	\$355,185,822	15%
State government*	\$1,011,118,809	44%
Federal government	\$572,248,072	25%
All other revenue	\$149,004,092	6%
Total revenues	\$2,303,879,467	100%

* Revenue from state and local government includes capital appropriations.

Source: Data supplied by North Carolina Community Colleges.

² See the Resources and References section for a detailed description of the data sources used in the EMSI modeling tools.

TABLE 1.3: EXPENSES BY FUNCTION, FY 2012-13

EXPENSE ITEM	TOTAL	%
Salaries, wages, and benefits	\$1,313,060,267	60%
Capital depreciation	\$73,400,029	3%
All other expenses	\$787,473,582	36%
Total expenses	\$2,173,933,878	100%

Source: Data supplied by North Carolina Community Colleges.

activities. As indicated, tuition and fees comprised 9% of total revenue, and student aid from local, state, and federal government sources comprised another 84%. All other revenue (i.e., auxiliary revenue, sales and services, interest, and donations) comprised the remaining 6%. These data are critical in identifying the annual costs of educating the student body from the perspectives of students, society, and taxpayers.

1.1.3 Expenses

The combined payroll at North Carolina Community Colleges, including student salaries and wages, amounted to \$1.3 billion. This was equal to 60% of the colleges' total expenses for FY 2012-13. Other expenses, including capital and purchases of supplies and services, made up \$860.9 million. These budget data appear in Table 1.3. Excluded from the table are construction expenditures given that construction funding is separate from operations funding in the budgeting process.

1.1.4 Students

In the 2012-13 reporting year, North Carolina Community Colleges served 326,172 students taking courses for credit towards a degree. This number represents an unduplicated student

headcount. The colleges also served 498,900 students taking courses not for credit towards a degree. The breakdown of the credit-bearing student body by gender was 49% male and 51% female. The breakdown by ethnicity was 56% white, 37% minority, and 7% unknown. The students' overall average age was 35 years old.⁴ An estimated 97% of students remain in North Carolina after finishing their time at North Carolina Community Colleges, and the remaining 3% settle outside the state.⁵

Table 1.4 on the next page summarizes the breakdown of the student population and their corresponding awards and credits by education level. In FY 2012-13, North Carolina Community Colleges served 37,037 associate's degree graduates and 12,053 certificate graduates. Another 253,647 students enrolled in courses for credit but did not complete a degree during the reporting year. The colleges offered dual credit courses to high school students, serving a total of 23,435 students over the course of the year. There were around 108,735 non-degree-seeking students for basic education courses. The colleges also served 46,168 personal enrichment students in non-credit courses for leisure. Students not allocated to the other categories – including non-degree-seeking workforce students – comprised the remaining 343,997 students.

We use credit hour equivalents (CHEs) to track the educational workload of the 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

4 Unduplicated headcount, gender, ethnicity, and age data provided by North Carolina Community Colleges.

5 Settlement data provided by North Carolina Community Colleges. In the event that the data was unavailable, EMSI used estimates based on student origin.

TABLE 1.4: BREAKDOWN OF STUDENT HEADCOUNT AND CHE PRODUCTION BY EDUCATION LEVEL, FY 2012-13

CATEGORY	HEADCOUNT	TOTAL CHES	AVERAGE CHES
DEGREE-SEEKING STUDENTS			
Associate's degree graduates	37,037	774,960	20.9
Certificate graduates	12,053	239,569	19.9
Credit-bearing students not yet graduated	253,647	2,722,512	10.7
Dual credit students	23,435	209,198	8.9
Total, degree-seeking students	326,172	3,946,239	12.1
NON-DEGREE-SEEKING STUDENTS			
Basic education students	108,735	861,158	7.9
Personal enrichment students	46,168	59,405	1.3
Workforce and all other students	343,997	1,291,996	3.8
Total, non-degree-seeking students	498,900	2,212,559	4.4
Total, all students	825,072	6,158,798	7.5
TOTAL, LESS PERSONAL ENRICHMENT STUDENTS	778,904	6,099,393	7.8

Source: Data supplied by North Carolina Community Colleges.

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 7.8.

1.2 THE NORTH CAROLINA ECONOMY

Table 1.5 on the following page summarizes the breakdown of the state 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 state's total Gross State Product (GSP).

As shown in Table 1.5, the GSP of North Carolina is approximately \$436.4 billion, equal to the sum of labor income (\$243.4 billion) and

non-labor income (\$193 billion). In Section 2, we use GSP as the backdrop against which we measure the relative impacts of the colleges on the state economy.

Table 1.6 provides the breakdown of jobs by industry in North Carolina. Among the state's non-government industry sectors, the Retail Trade sector is the largest employer, supporting 547,329 jobs or 10.2% of total employment in the state. The second largest employer is the Health Care and Social Assistance sector, supporting 537,510 jobs or 10.0% of the state's total employment. Altogether, the state supports 5.4 million jobs.⁶

⁶ Job numbers reflect EMSI's complete employment data, which includes the following four job classes: 1) employees that are counted in the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), 2) employees that 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 1.5: LABOR AND NON-LABOR INCOME BY MAJOR INDUSTRY SECTOR IN NORTH CAROLINA, 2013*†

INDUSTRY SECTOR	LABOR INCOME (MILLIONS)	+	NON- LABOR INCOME (MILLIONS)	=	TOTAL ADDED INCOME (MILLIONS)	OR	% OF TOTAL
Agriculture, Forestry, Fishing, and Hunting	\$2,362		\$1,550		\$3,912		0.9%
Mining	\$336		\$657		\$993		0.2%
Utilities	\$1,415		\$5,135		\$6,551		1.5%
Construction	\$11,680		\$1,057		\$12,738		2.9%
Manufacturing	\$29,965		\$38,734		\$68,699		15.7%
Wholesale Trade	\$13,161		\$12,106		\$25,268		5.8%
Retail Trade	\$14,987		\$10,633		\$25,620		5.9%
Transportation and Warehousing	\$6,539		\$3,343		\$9,882		2.3%
Information	\$6,081		\$9,836		\$15,917		3.6%
Finance and Insurance	\$17,197		\$21,193		\$38,389		8.8%
Real Estate and Rental and Leasing	\$5,992		\$22,764		\$28,756		6.6%
Professional and Technical Services	\$18,954		\$5,948		\$24,902		5.7%
Management of Companies and Enterprises	\$8,915		\$2,014		\$10,928		2.5%
Administrative and Waste Services	\$10,958		\$2,506		\$13,464		3.1%
Educational Services	\$4,410		\$585		\$4,995		1.1%
Health Care and Social Assistance	\$25,610		\$3,018		\$28,629		6.6%
Arts, Entertainment, & Recreation	\$2,825		\$1,394		\$4,219		1.0%
Accommodation and Food Services	\$6,846		\$4,658		\$11,504		2.6%
Other Services (except Public Administration)	\$6,793		\$971		\$7,764		1.8%
Public Administration	\$48,353		\$14,073		\$62,426		14.3%
Other Non-industries	\$0		\$30,834		\$30,834		7.1%
Total	\$243,381		\$193,010		\$436,391		100.0%

* Data reflect the most recent year for which data are available. EMSI data are updated quarterly.

† Numbers may not add due to rounding.

Source: EMSI.

TABLE 1.6: JOBS BY MAJOR INDUSTRY SECTOR IN NORTH CAROLINA, 2013*†

INDUSTRY SECTOR	TOTAL JOBS	% OF TOTAL
Agriculture, Forestry, Fishing, and Hunting	86,247	1.6%
Mining	7,356	0.1%
Utilities	12,970	0.2%
Construction	291,463	5.4%
Manufacturing	459,970	8.6%
Wholesale Trade	189,273	3.5%
Retail Trade	547,329	10.2%
Transportation and Warehousing	144,722	2.7%
Information	86,106	1.6%
Finance and Insurance	248,656	4.6%
Real Estate and Rental and Leasing	229,992	4.3%
Professional and Technical Services	306,383	5.7%
Management of Companies and Enterprises	83,229	1.6%
Administrative and Waste Services	367,979	6.9%
Educational Services	118,726	2.2%
Health Care and Social Assistance	537,510	10.0%
Arts, Entertainment, and Recreation	112,271	2.1%
Accommodation and Food Services	380,939	7.1%
Other Services (except Public Administration)	301,605	5.6%
Public Administration	852,696	15.9%
Total	5,365,424	100.0%

* Data reflect the most recent year for which data are available. EMSI data are updated quarterly.

† Numbers may not add due to rounding.

Source: EMSI complete employment data.

Table 1.7 presents the mean income by education level in North Carolina at the midpoint of the average-aged worker's career. These numbers are derived from EMSI's complete employment data on average income per worker in the state.⁷ 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 achieve an associate's degree can expect \$39,300 in income per year, approximately \$10,800 more than someone with a high school diploma.

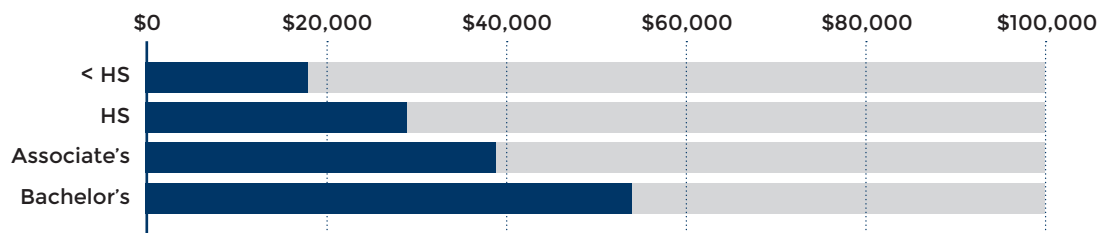
⁷ Wage rates in the EMSI SAM model combine state and federal sources to provide earnings that reflect complete employment in the state, including proprietors, self-employed workers, and others not typically included in state data, as well as benefits and all forms of employer contributions. As such, EMSI industry earnings-per-worker numbers are generally higher than those reported by other sources.

TABLE 1.7: EXPECTED INCOME IN NORTH CAROLINA AT THE MIDPOINT OF AN INDIVIDUAL'S WORKING CAREER BY EDUCATION LEVEL

EDUCATION LEVEL	INCOME	DIFFERENCE FROM NEXT LOWEST DEGREE	DIFFERENCE FROM HIGH SCHOOL DIPLOMA
Less than high school	\$17,900	n/a	n/a
High school or equivalent	\$28,500	\$10,600	n/a
Associate's degree	\$39,300	\$10,800	\$10,800
Bachelor's degree	\$54,200	\$14,900	\$25,700

Source: EMSI complete employment data.

FIGURE 1.1: EXPECTED INCOME BY EDUCATION LEVEL AT CAREER MIDPOINT



2 ECONOMIC IMPACTS ON THE NORTH CAROLINA ECONOMY

The North Carolina economy is impacted by North Carolina Community Colleges in a variety of ways. The colleges are employers and buyers of goods and services. They attract monies that would not have otherwise entered the state economy through their day-to-day operations, their construction expenditures, and the expenditures of their out-of-state students. Further, they provide students with the knowledge, skills, and abilities they need to become productive citizens and contribute to the overall output of the state.

This section presents the total economic impact of North Carolina Community Colleges broken out according to the following categories:

1. Impact of **operations spending**
2. Impact of **construction spending**
3. Impact of **student spending**
4. Impact of **alumni** employed in the North Carolina workforce.

Economic impact analyses use different types of measures when reporting estimated results. Frequently used is the sales impact, which comprises the change in business sales revenue in the economy as a result of increased economic activity. However, much of this sales revenue leaves the economy and overstates actual impacts. A more conservative measure – and the one employed in this study – is the total added income impact, which assesses the change in Gross State Product, or GSP. Total

added income may be further broken out into the labor income impact, which assesses the change in employee compensation; and the non-labor income impact, which assesses the change in business profits and returns on capital. Another way to state the total added income impact is job equivalents, a measure of the number of full- and part-time jobs that would be required to support the change in total added income. All four of these measures – total added income, labor income, non-labor income, and job equivalents – are used to estimate the economic impact results presented in this section.

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:

1. 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.

2. 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 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 section 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	Initial	Direct	Indirect	Induced
IMPLAN	Direct	Indirect		Induced

Multiplier effects in this analysis are derived using EMSI’s Social Accounting Matrix (SAM) input-output model that captures the interconnection of industries, government, and households in the state. The EMSI SAM contains approximately 1,100 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. For more information on the EMSI SAM model and its data sources, see Appendix 3.

2.1 OPERATIONS SPENDING IMPACT

Faculty and staff payroll is part of the state’s overall income, and the spending of employees for groceries, apparel, and other household spending helps support state businesses. The colleges themselves purchase supplies and services, and many of their vendors are located in North Carolina. These expenses create a ripple effect that generates still more jobs and income throughout the economy.

Table 2.1 presents the expenses of the colleges in FY 2012-13 by type of cost. Three main categories appear in the table: 1) salaries, wages, and benefits, 2) capital depreciation, and 3) all other expenses, including purchases for

TABLE 2.1: EXPENSES BY TYPE OF COST OF NORTH CAROLINA COMMUNITY COLLEGES, FY 2012-13

TYPE OF COST	TOTAL EXPENSES (THOUSANDS)	IN-STATE EXPENSES (THOUSANDS)	OUT-OF-STATE EXPENSES (THOUSANDS)
Salaries, wages, and benefits	\$1,313,060	\$603,775	\$709,285
Capital depreciation	\$73,400	\$52,498	\$20,902
All other expenses	\$787,474	\$415,533	\$371,941
Total	\$2,173,934	\$1,071,806	\$1,102,128

Source: Data supplied by North Carolina Community Colleges and the EMSI impact model.

supplies and services. Further detail on where expenses occur – whether in-state or out-of-state – is also provided.

The first step in estimating the impact of the expenses shown in Table 2.1 is to map them to the approximately 1,100 industries of the EMSI SAM model. Assuming that the spending patterns of the colleges' personnel approximately match those of the average consumer, we map salaries, wages, and benefits to spending on industry outputs using national household expenditure coefficients supplied by EMSI's national SAM. Approximately 98% of the people working at North Carolina Community Colleges live in North Carolina (see Table 1.1), and therefore we consider only 98% of the salaries, wages, and benefits. For the other two expense categories (i.e., capital depreciation and all other expenses), we assume the colleges' spending patterns approximately match national averages and apply the national spending coefficients for NAICS 611310 (Colleges, Universities, and Professional Schools). Capital depreciation is mapped to the construction sectors of NAICS 611310 and the colleges' remaining expenses to the non-construction sectors of NAICS 611310.

We now have three expense vectors for North Carolina Community Colleges: one for

salaries, wages, and benefits; another for capital depreciation; and a third for the colleges' purchases of supplies and services. The next step is to estimate the portion of these expenses that occurs inside the state. Those that occur outside the state are known as leakages. We estimate in-state expenses using regional purchase coefficients (RPCs), a measure of the overall demand for the commodities produced by each industry sector that is satisfied by state suppliers, for each of the approximately 1,100 industries in the SAM model.⁸ For example, if 40% of the demand for NAICS 541211 (Offices of Certified Public Accountants) is satisfied by state suppliers, the RPC for that industry is 40%. The remaining 60% of the demand for NAICS 541211 is provided by suppliers located outside the state. The three vectors of expenses are multiplied, industry by industry, by the corresponding RPC to arrive at the in-state expenses associated with the colleges. Finally, in-state spending is entered, industry by industry, into the SAM model's multiplier matrix, which in turn provides an estimate of the associated multiplier effects on state labor income, non-labor income, total added income, and job equivalents.

8 See Appendix 3 for a description of EMSI's SAM model.

TABLE 2.2: IMPACT OF THE OPERATIONS SPENDING OF NORTH CAROLINA COMMUNITY COLLEGES, FY 2012-13

INDUSTRY SECTOR	LABOR INCOME (THOUSANDS)	+	NON-LABOR INCOME (THOUSANDS)	=	TOTAL ADDED INCOME (THOUSANDS)	OR	JOB EQUIVALENTS
INITIAL EFFECT	\$1,307,621		\$0		\$1,307,621		45,499
MULTIPLIER EFFECT							
Direct effect	\$135,282		\$198,201		\$333,483		3,615
Indirect effect	\$33,278		\$37,390		\$70,668		862
Induced effect	\$466,376		\$502,592		\$968,968		12,901
Total multiplier effect	\$634,936		\$738,183		\$1,373,119		17,378
GROSS IMPACT (INITIAL + MULTIPLIER)	\$1,942,557		\$738,183		\$2,680,740		62,877
Less alternative uses of funds	-\$483,405		-\$475,928		-\$959,333		-13,512
NET IMPACT	\$1,459,152		\$262,255		\$1,721,407		49,366

Source: EMSI impact model.

Table 2.2 presents the economic impact of the colleges' operations. The people employed by North Carolina Community Colleges and their salaries, wages, and benefits comprise the initial effect, shown in the top row in terms of labor income, non-labor income, total added income, and job equivalents. The additional impacts created by the initial effect appear in the next four rows under the heading "Multiplier effect." Summing initial and multiplier effects, the gross impacts are \$1.9 billion in labor income and \$738.2 billion in non-labor income. This comes to a total impact of \$2.7 billion in total added income, equivalent to 62,877 jobs, associated with the spending of the colleges and their employees in the state.

The \$2.7 billion in total gross total added income is often reported by other researchers as an impact. We go a step further to arrive at a net impact by applying a counterfactual scenario, i.e., what has not happened but what

would have happened if a given event – in this case, the expenditure of in-state funds on North Carolina Community Colleges – had not occurred. The colleges received an estimated 73.4% of their funding from sources within North Carolina. These monies came from the tuition and fees paid by resident students, from the auxiliary revenue and donations from private sources located within the state, 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-state funding. Had other industries received these monies rather than North Carolina Community Colleges, 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 simulat-

ing a scenario where in-state monies spent on the colleges are instead spent on consumer goods and savings. This simulates the in-state monies being returned to the taxpayers and being spent by the household sector. Our approach is to establish the total amount spent by in-state students and taxpayers on North Carolina Community Colleges, map this to the detailed industries of the SAM model using national household expenditure coefficients, use the industry RPCs to estimate in-state spending, and run the in-state spending through the 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 impacts of the colleges' operations are equal to the total gross impacts less the impact of the alternative use of funds – the opportunity cost of the state and local money. As shown in the last row of Table 2.2, the total net impact is approximately \$1.5 billion in labor income and \$262.3 million in non-labor income. This totals \$1.7 billion in total added income and is equivalent to 49,366 jobs. These impacts represent new economic activity created in the state economy solely attributable to the operations of North Carolina Community Colleges.

2.2 CONSTRUCTION SPENDING IMPACT

In this section we estimate the economic impact of the construction spending of North Carolina Community Colleges. Because construction funding is separate from operations funding in the budgeting process, it is not captured in the operations spending impact estimated in the previous section. However, like the operations spending, the construction spending creates

subsequent rounds of spending and multiplier effects that generate still more jobs and income throughout the state. During FY 2012-13, North Carolina Community Colleges spent a total of \$138.2 million on various construction projects.

The methodology used here is similar to that used when estimating the impact of operations capital spending. Assuming North Carolina Community Colleges construction spending approximately matches the average construction spending pattern of colleges and universities in North Carolina, we map North Carolina Community Colleges construction spending to the construction industries of the EMSI SAM model. Next, we use the RPCs to estimate the portion of this spending that occur in-state. Finally, the in-state 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-state construction money, we estimate the impacts of a similar alternative uses of funds as found in the operations spending impacts. This is done by simulating a scenario where in-state monies spent on construction are instead spent on consumer goods. These impacts are then subtracted from the gross construction spending impacts. Because construction is so labor intensive, most of the added income is labor income as opposed to non-labor income. As a result, the non-labor impacts associated with spending in the non-construction sectors are larger than in the construction sectors, so the net non-labor impact of construction spending is negative. This means that had the construction money been spent on consumer goods, more non-labor income would have been created at the expense of less labor income. The total net impact is still positive and substantial.

Table 2.3 presents the impacts of the North

TABLE 2.3: IMPACT OF CONSTRUCTION SPENDING OF NORTH CAROLINA COMMUNITY COLLEGES, FY 2012-13

INDUSTRY SECTOR	LABOR INCOME (THOUSANDS)	+	NON-LABOR INCOME (THOUSANDS)	=	TOTAL ADDED INCOME (THOUSANDS)	OR	JOB EQUIVALENTS
INITIAL EFFECT	\$0		\$0		\$0		0
MULTIPLIER EFFECT							
Direct effect	\$46,700		\$4,229		\$50,929		1,162
Indirect effect	\$12,647		\$1,145		\$13,792		313
Induced effect	\$28,484		\$2,579		\$31,063		707
GROSS IMPACT (INITIAL + MULTIPLIER)	\$87,831		\$7,953		\$95,783		2,182
Less alternative uses of funds	-\$29,637		-\$29,178		-\$58,815		-828
NET IMPACT	\$58,194		-\$21,225		\$36,969		1,354

Source: EMSI impact model.

Carolina Community Colleges construction spending during FY 2012-13. Note the initial effect is purely a sales effect, so there is no initial change in labor or non-labor income. The FY 2012-13 North Carolina Community Colleges construction spending creates \$37 million in total added income – the equivalent of creating 1,354 new jobs – for the state of North Carolina.

2.3 STUDENT SPENDING IMPACT

An estimated 12,256 students came from outside the state and lived off campus while attending the colleges in FY 2012-13. These students spent money at state businesses for groceries, accommodation, transportation, and so on. These students also spent money while attending, although we exclude most of their spending for room and board since these expenditures are already reflected in the

TABLE 2.4: AVERAGE STUDENT COSTS AND TOTAL SALES GENERATED BY OUT-OF-STATE STUDENTS IN NORTH CAROLINA, FY 2012-13

Room and board	\$7,812
Personal expenses	\$3,353
Transportation	\$2,044
Total expenses per student	\$13,209
Number of students who lived in the state off-campus	12,256
Gross sales	\$161,887,327
Wages and salaries paid to student workers*	\$473,180
Net off-campus sales	\$161,414,147

* This figure reflects only the portion of payroll that was used to cover the living expenses of non-resident student workers who lived in the state.

Source: Student costs supplied by North Carolina Community Colleges. The number of students who lived in the state and off-campus or on-campus while attending is derived from the student origin data and in-term residence data supplied by North Carolina Community Colleges. The data is based on all students.

TABLE 2.5: IMPACT OF THE SPENDING OF OUT-OF-STATE STUDENTS ATTENDING NORTH CAROLINA COMMUNITY COLLEGES, FY 2012-13

INDUSTRY SECTOR	LABOR INCOME (THOUSANDS)	+	NON-LABOR INCOME (THOUSANDS)	=	TOTAL ADDED INCOME (THOUSANDS)	OR	JOB EQUIVALENTS
INITIAL EFFECT	\$0		\$0		\$0		0
MULTIPLIER EFFECT							
Direct effect	\$34,608		\$38,760		\$73,368		1,359
Indirect effect	\$8,097		\$8,120		\$16,217		311
Induced effect	\$23,154		\$25,928		\$49,083		859
Total multiplier effect	\$65,860		\$72,807		\$138,667		2,529
TOTAL IMPACT (INITIAL + MULTIPLIER)	\$65,860		\$72,807		\$138,667		2,529

Source: EMSI impact model.

impact of the colleges' operations. Collectively, the off-campus expenditures of out-of-state students supported jobs and created new income in the state economy.⁹

The average off-campus costs of out-of-state students appear in the first section of Table 2.4 on the previous page, equal to \$13,209 per student. Note that this figure excludes expenses for books and supplies, since many of these monies are already reflected in the operations impact discussed in the previous section. We multiply the \$13,209 in annual costs by the number of students who lived in the state but off-campus while attending (12,256 students) to estimate their total spending. Altogether, off-campus student spending generated gross sales of \$161.9 million. This figure, once net of the monies paid to student workers, yields net off-campus sales of \$161.4 million, as shown in the bottom row of the Table 2.4.

Estimating the impacts generated by the \$161.4 million in student spending follows a procedure similar to that of the operations impact described above. We distribute the \$161.4 million in sales to the industry sectors of the SAM model, apply RPCs to reflect in-state spending only, and run the net sales figures through the SAM model to derive multiplier effects.

Table 2.5 presents the results. Unlike the previous subsections, the initial effect is purely sales-oriented and there is no change in labor or non-labor income. The impact of out-of-state student spending thus falls entirely under the multiplier effect. The total impact of out-of-state student spending is \$65.9 million in labor income and \$72.8 million in non-labor income, totaling \$138.7 million in total added income, or 2,529 jobs. These values represent the direct effects created at the businesses patronized by the 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 state economy as a result of the direct and indirect effects.

9 Online students and students who commuted to North Carolina from outside the state are not considered in this calculation because their living expenses predominantly occurred in the state where they resided during the analysis year.

It is important to note that students from the state also spend money while attending North Carolina Community Colleges. However, had they lived in the state without attending North Carolina Community Colleges, they would have spent a similar amount of money on their living expenses. We make no inference regarding the number of students that would have left the state had they not attended North Carolina Community Colleges. Had the impact of these students been included, the results presented in Table 2.5 would have been much greater.

2.4 ALUMNI IMPACT

While North Carolina Community Colleges create an economic impact through their spending and the spending of their students, the greatest economic impact of North Carolina Community Colleges stems from the added human capital – the knowledge, creativity, imagination, and entrepreneurship – found in their alumni. While attending one of North Carolina Community Colleges, students receive 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 North Carolina Community Colleges' alumni enjoy the fruits of this increased productivity in the form of additional non-labor income (i.e., higher profits).

In this section we estimate the economic impacts stemming from the higher labor income of alumni in combination with their employers' higher non-labor income. Former students who achieved a degree as well as

those who may not have finished a degree or who did not take courses for credit are considered alumni. The methodology here differs from the previous impacts in one fundamental way. Whereas the other impacts depend on an annually renewed injection of new sales in the state economy, the alumni impact is the result of years of past instruction and the associated accumulation of human capital. This is an important distinction that sets the alumni impact apart from the other impacts presented in this report.

The initial effect of alumni comprises two main components. The first and largest of these is the added labor income of the colleges' alumni, and the second comprises the added non-labor income of the businesses where the alumni are employed. To derive the initial effect, we estimate the portion of alumni that are employed in the workforce using 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;¹⁰ 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 U.S. Census Bureau. Applying these factors to the colleges' historical student 12-month enrollments yields the estimated number of alumni that were still actively employed in the state as of FY 2012-13.

The next step is to quantify the skills that alumni acquired from the colleges, using the students' production of credit hour equivalents (CHEs) as a proxy for skills. To do this, we

10 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.

multiply the number of alumni still employed in the workforce by the 7.8 average CHEs per student (see Table 1.4)¹¹ to generate an estimate of approximately 131.8 million CHEs active in the workforce. Note that alumni who enrolled at the colleges more than one year are counted at least twice – if not more – in the calculations. However, CHEs remain distinct regardless of when and by whom they were earned, so there is no duplication in the CHE counts.

Next, we estimate the value of the CHEs. This is done using the incremental added labor income stemming from the students' higher wages. The incremental labor income is the difference between the wages earned by alumni and the alternative wage they would have earned had they not attended college. Using the CHEs earned by students and the associated wage differentials between education levels, we estimate the average value per CHE to be equal to \$137. This value represents the average incremental increase in wages that alumni of North Carolina Community Colleges received during the analysis year for every CHE they completed. For a more detailed

discussion of the calculation of this variable, see Appendix 5.

Because workforce experience leads to increased productivity and higher wages, the value per CHE varies depending on the students' workforce experience, with the highest value applied to the CHEs of students who had been employed the longest by FY 2012-13, and the lowest value per CHE applied to students who were just entering the workforce. In determining the amount of added labor income attributable to alumni, we multiply the CHEs of former 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 \$18 billion in gross labor income in increased wages received by former students in FY 2012-13 (as shown in Table 2.6).

The next two rows in Table 2.6 show two adjustments used to account for counterfactual outcomes. As discussed above, counterfactual outcomes in economic impact analysis represent what would have happened if a given event had not occurred. The event in question is the education and training provided by North Carolina Community Colleges and subsequent influx of skilled labor into the state

11 This assumes the average CHE production and level of study from past years is equal to the CHE production and level of study of students during the analysis year.

TABLE 2.6: NUMBER OF CHEs IN WORKFORCE AND INITIAL LABOR INCOME CREATED IN NORTH CAROLINA, FY 2012-13

Number of CHEs in workforce	131,792,657
Average value per CHE	\$137
Initial labor income, gross	\$18,037,788,480
COUNTERFACTUALS	
Percent reduction for alternative education opportunities	15%
Percent reduction for adjustment for labor import effects	50%
Initial labor income, net	\$7,666,060,104

Source: EMSI impact model.

economy. The first counterfactual scenario that we address is the adjustment for alternative education opportunities. In the counterfactual scenario where North Carolina Community Colleges did not exist, we assume a portion of North Carolina Community Colleges' alumni would have received a comparable education elsewhere in the state or would have left the state and received a comparable education and then returned to the state. The incremental labor income that accrues to those students cannot be counted towards the added labor income from alumni of North Carolina Community Colleges. The adjustment for alternative education opportunities amounts to an estimated 15% reduction of the \$18 billion in added labor income.¹² This represents an estimation of the added labor income from alumni of North Carolina Community Colleges that would have been generated in the state anyway, even if the colleges did not exist. For

more information on the alternative education adjustment, see Appendix 6.

The other adjustment in Table 2.6 accounts for the importation of labor. Suppose North Carolina Community Colleges did not exist and in consequence there were fewer skilled workers in the state. Businesses could still satisfy some of their need for skilled labor by recruiting from outside North Carolina. We refer to this as the labor import effect. Lacking information on its possible magnitude, we assume 50% of the jobs that students fill at state businesses could have been filled by workers recruited from outside the state if the colleges did not exist.¹³ We conduct a sensitivity analysis for this assumption in Section 4. With the 50% adjustment, the net labor income added to the economy comes to \$7.7 billion, as shown in Table 2.6.

The \$7.7 billion in added labor income appears under the initial effect in the labor

12 For a sensitivity analysis of the alternative education opportunities variable, see Section 4.

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

TABLE 2.7: IMPACT OF ALUMNI OF NORTH CAROLINA COMMUNITY COLLEGES, FY 2012-13

INDUSTRY SECTOR	LABOR INCOME (THOUSANDS)	+	NON-LABOR INCOME (THOUSANDS)	=	TOTAL ADDED INCOME (THOUSANDS)	OR	JOB EQUIVALENTS
INITIAL EFFECT	\$7,666,060		\$2,328,994		\$9,995,054		162,468
MULTIPLIER EFFECT							
Direct effect	\$1,182,583		\$426,076		\$1,608,660		25,682
Indirect effect	\$318,316		\$121,555		\$439,871		6,987
Induced effect	\$5,978,616		\$1,557,427		\$7,536,043		126,868
Total multiplier effect	\$7,479,516		\$2,105,058		\$9,584,574		159,537
TOTAL IMPACT (INITIAL + MULTIPLIER)	\$15,145,576		\$4,434,052		\$19,579,629		322,005

Source: EMSI impact model.

income column of Table 2.7 on the previous page. To this we add an estimate for initial non-labor income. As discussed earlier in this section, businesses that employ former students of North Carolina Community Colleges 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 (\$7.7 billion) 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 state 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 SAM model.¹⁴ Using a crosswalk created by National Center for Education Statistics (NCES) and the Bureau of Labor Statistics (BLS), we map the breakdown of the state's 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 SAM model to map the occupational distribution of the \$7.7 billion in initial labor income effects to the detailed industry sectors in the SAM model.¹⁵

Once these allocations are complete, we apply the ratio of non-labor to labor income provided by the SAM model for each sector to our estimate of initial labor income. This computation yields an estimated \$2.3 billion in non-labor income that can be attributable to the colleges' alumni. Summing initial labor and

non-labor income together provides the total initial effect of alumni on the North Carolina economy, equal to approximately \$10 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 SAM model. We then run the values through the SAM's multiplier matrix.

Table 2.7 shows the multiplier effects of alumni. Multiplier effects occur as alumni generate an increased demand for consumer goods and services through the expenditure of their higher wages. Further, as the industries where 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, the incomes generated by the expansions in business input purchases and household spending constitute the multiplier effect of the increased productivity of the colleges' alumni. The final results are \$7.5 billion in labor income and \$2.1 billion in non-labor income, for an overall total of \$9.6 billion in multiplier effects. The grand total impact of alumni thus comes to \$19.6 billion in total added income, the sum of all initial and multiplier labor and non-labor income impacts. This is equivalent to 322,005 jobs.

2.5 TOTAL IMPACT OF NORTH CAROLINA COMMUNITY COLLEGES

The total economic impact of North Carolina Community Colleges on North Carolina can be generalized into two broad types of impacts. First, on an annual basis, North Carolina Community Colleges generate a flow of spending that has a significant impact on the North Carolina economy. The impacts of this spend-

14 Completer data comes from the Integrated Postsecondary Education Data System (IPEDS), which organizes program completions according to the Classification of Instructional Programs (CIP) developed by the National Center for Education Statistics (NCES).

15 For example, if the 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.

TABLE 2.8: TOTAL IMPACT OF NORTH CAROLINA COMMUNITY COLLEGES, FY 2012-13

INDUSTRY SECTOR	LABOR INCOME (THOUSANDS)	+	NON-LABOR INCOME (THOUSANDS)	=	TOTAL ADDED INCOME (THOUSANDS)	OR	JOB EQUIVALENTS
Operations spending	\$1,459,152		\$262,255		\$1,721,407		49,366
Construction spending	\$58,194		-\$21,225		\$36,969		1,354
Student spending	\$65,860		\$72,807		\$138,667		2,529
Alumni	\$15,145,576		\$4,434,052		\$19,579,629		322,005
Total impact	\$16,786,977		\$4,726,664		\$21,513,641		375,254
% OF NORTH CAROLINA ECONOMY	6.9%		2.4%		4.9%		7.0%

Source: EMSI impact model.

ing are captured by the operations, construction, and student spending impacts. While not insignificant, these impacts do not capture the true impact or purpose of North Carolina Community Colleges. The basic purpose of North Carolina Community Colleges is to foster human capital. Every year a new cohort of North Carolina Community Colleges' alumni add to the stock of human capital in North Carolina, and a portion of alumni continue to contribute to the North Carolina economy. This is demonstrated by the hundreds of thousands of alumni North Carolina Community Colleges

have served over the past 30 years who remain active in the state workforce.

Table 2.8 displays the grand total impacts of North Carolina Community Colleges on the North Carolina economy in FY 2012-13 – including the impacts from operations spending, construction spending, student spending, and alumni. For context, the percentages of North Carolina Community Colleges compared to the total labor income, non-labor income, total added income, and job equivalents in North Carolina, as presented in Table 1.5, are included.

3

INVESTMENT ANALYSIS

The benefits generated by North Carolina Community Colleges affect the lives of many people. The most obvious beneficiaries are the colleges' students; they give up time and money to go to the colleges in return for a lifetime of higher income and improved quality of life. But the benefits do not stop there. As students earn more, communities and citizens throughout North Carolina 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 section, we consider North Carolina Community Colleges as a worthwhile investment from the perspectives of students, society, and taxpayers.

3.1 STUDENT PERSPECTIVE

To enroll in postsecondary education, students pay money for tuition and forgo monies that they would have otherwise earned had they chosen to work instead of learn. From the perspective of 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 monies that students pay

in the form of tuition and fees and the opportunity costs of forgone time and money. The benefits are the higher earnings that students receive as a result of their education.

3.1.1 Calculating student costs

Student costs consist of two main items: direct outlays and opportunity costs. Direct outlays include tuition and fees, equal to \$216.3 million from Table 1.2. Direct outlays also include the cost of books and supplies. On average, full-time students spent \$1,424 each on books and supplies during the reporting year.¹⁶ Multiplying this figure times the number of full-time equivalents (FTEs) produced by North Carolina Community Colleges in FY 2012-13¹⁷ generates a total cost of \$288.1 million for books and supplies.

Opportunity cost is the most difficult

¹⁶ Based on the data supplied by North Carolina Community Colleges.

¹⁷ A single FTE is equal to 30 CHEs, so there were 203,313 FTEs produced by students in FY 2012-13, equal to 6.1 million CHEs divided by 30 (excluding the CHE production of personal enrichment students).

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

We derive the students' full earning potential by weighting the average annual income levels in Table 1.7 according to the education level breakdown of the student population when they first enrolled.¹⁸ However, the income levels in Table 1.7 reflect what average workers earn at the midpoint of their careers, not while attending the colleges. Because of this, we adjust the income levels to the average age of the student population (35) to better reflect their wages at their current age.¹⁹ This calculation yields an average full earning potential of \$31,356 per student.

In determining how much 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 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 forgone earnings. Overall, students attending North Carolina Community Colleges earned an average of 7.8 CHEs per student (excluding personal enrichment students), which is approximately equal to 26% of a full academic year.²⁰ We thus include no more than \$8,185 (or

26%) of the students' full earning potential in the opportunity cost calculations.

Another factor to consider is the students' employment status while enrolled in postsecondary education. Based on data supplied by the colleges, approximately 55% of students are employed.²¹ For the 45% that are not working, 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 \$8,185). The total value of their forgone income thus comes to \$2.7 billion.

Working students are able to maintain all or part of their income 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 students hold jobs that pay 58% of what they would have earned had they chosen to work full-time rather than go to the colleges.²² The remaining 42% comprises the percent of their full earning potential that they forgo. Obviously this assumption varies by person; some students forego more and others less. Since we don't know the actual jobs held by students while attending, the 42% in forgone earnings serves as a reasonable average.

Working students also give up a portion

18 This is based on the number of students who reported their entry level of education to North Carolina Community Colleges. EMSI provided estimates in the event that the data was not available from the colleges.

19 Further discussion on this adjustment appears in Appendix 5.

20 Equal to 7.8 CHEs divided by 30, the assumed number of CHEs in a full-time academic year.

21 EMSI provided an estimate of the percentage of students employed in the case the colleges was unable to collect the data.

22 The 58% assumption is based on the average hourly wage of the jobs most 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).

TABLE 3.1: STUDENT COSTS, FY 2012-13 (THOUSANDS)

DIRECT OUTLAYS	
Tuition and fees	\$216,323
Books and supplies	\$288,106
Less direct outlays of personal enrichment students	-\$2,075
Total direct outlays	\$502,354
OPPORTUNITY COSTS	
Earnings forgone by non-working students	\$2,731,391
Earnings forgone by working students	\$1,403,754
Value of leisure time forgone by working students	\$569,046
Less residual aid	-\$310,142
Total opportunity costs	\$4,394,049
TOTAL STUDENT COSTS	\$4,896,403

Source: Based on data supplied by North Carolina Community Colleges and outputs of the EMSI college impact model.

of their leisure time in order to attend higher education colleges. According to the Bureau of Labor Statistics American Time Use Survey, students forgo up to 1.4 hours of leisure time per day.²³ 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 students' full earning potential. For working students, therefore, their total opportunity cost comes to \$2 billion, equal to the sum of their foregone income (\$1.4 billion) and forgone leisure time (\$569 million).

The steps leading up to the calculation of student costs appear in Table 3.1. Direct outlays amount to \$502.4 million, the sum of tuition and fees (\$216.3 million) and books and supplies (\$288.1 million), less \$2.1 million in direct outlays for personal enrichment students (these students are excluded from the cost cal-

culations). Opportunity costs for working and non-working students amount to \$4.4 billion, excluding \$310.1 million in offsetting residual aid that is paid directly to students.²⁴ Summing direct outlays and opportunity costs together yields a total of \$4.9 billion in student costs.

3.1.2 Linking education to earnings

Having estimated the costs of education to 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 student benefits. As shown in Table 1.7, mean income levels at the midpoint of the average-aged worker's career increase as people achieve higher levels of education. The differences between income levels define the incremental benefits of moving from one education level to the next.

A key component in determining the students' return on investment is the value of

23 "Charts by Topic: Leisure and sports activities," Bureau of Labor Statistics American Time Use Survey, last modified November 2012, accessed July 2013, <http://www.bls.gov/TUS/CHARTS/LEISURE.HTM>.

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

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' 2012-13 students first by determining their average annual increase in income, equal to \$981.7 million. This value represents the higher income that accrues to students at the midpoint of their careers and is calculated based on the marginal wage increases of the CHEs that students complete while attending the colleges. For a full description of the methodology used to derive the \$981.7 million, see Appendix 5.

The second step is to project the \$981.7 million annual increase in income into the future, for as long as 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.²⁵ 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 US 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 United States based Mincer coefficients estimated by Polachek (2003). To account for any upward bias, we incorporate a 10% reduction in our projected earnings. With the \$981.7 million representing the 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 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 on the following page.

As shown in Table 3.2, the \$981.7 million in gross added income occurs around Year 18, which is the approximate midpoint of the 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 added income that accrues to students in the years leading up to the midpoint is less than \$981.7 million and the gross added income in the years after the midpoint is greater than \$981.7 million.

The final step in calculating the 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 2012-13 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 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 Section 2, settling-in factors delay the onset of the benefits by one to three years for 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 hori-

25 Appendix 5 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 ADDED INCOME TO STUDENTS (MILLIONS)	LESS ADJUSTMENTS (MILLIONS)*	NET ADDED INCOME TO STUDENTS (MILLIONS)	STUDENT COSTS (MILLIONS)	NET CASH FLOW (MILLIONS)
0	\$542	13%	\$68	\$4,896	-\$4,829
1	\$567	50%	\$281	\$0	\$281
2	\$592	58%	\$341	\$0	\$341
3	\$618	67%	\$411	\$0	\$411
4	\$643	76%	\$489	\$0	\$489
5	\$669	90%	\$601	\$0	\$601
6	\$695	90%	\$625	\$0	\$625
7	\$721	90%	\$649	\$0	\$649
8	\$746	90%	\$672	\$0	\$672
9	\$772	90%	\$695	\$0	\$695
10	\$797	90%	\$718	\$0	\$718
11	\$822	90%	\$740	\$0	\$740
12	\$847	90%	\$761	\$0	\$761
13	\$871	90%	\$782	\$0	\$782
14	\$895	90%	\$802	\$0	\$802
15	\$918	89%	\$820	\$0	\$820
16	\$940	89%	\$838	\$0	\$838
17	\$961	89%	\$854	\$0	\$854
18	\$982	89%	\$869	\$0	\$869
19	\$1,001	88%	\$883	\$0	\$883
20	\$1,020	88%	\$895	\$0	\$895
21	\$1,037	87%	\$906	\$0	\$906
22	\$1,053	87%	\$915	\$0	\$915
23	\$1,068	86%	\$922	\$0	\$922
24	\$1,082	86%	\$928	\$0	\$928
25	\$1,094	85%	\$927	\$0	\$927
26	\$1,105	84%	\$925	\$0	\$925
27	\$1,115	82%	\$914	\$0	\$914
28	\$1,115	78%	\$872	\$0	\$872
29	\$1,116	72%	\$802	\$0	\$802
30	\$1,104	48%	\$529	\$0	\$529
31	\$1,041	33%	\$339	\$0	\$339
PRESENT VALUE			\$11,466	\$4,896	\$6,569
Internal rate of return					12.0%
Benefit-cost ratio					2.3
Payback period (no. of years)					10.1

* 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 impact model.

zon, 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 Section 2.²⁶ The likelihood of leaving the workforce increases as 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 added income to students after accounting for both the settling-in patterns and attrition.

3.1.3 Return on investment to students

Having estimated the 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 student perspective we assume a discount rate of 4.5% (see below). Because 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 rates.²⁷ In Section 4, we conduct a sensitivity analysis of this discount rate. The present value of the benefits is then compared to 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, a rate of return that exceeds the discount rate, and a reasonably short payback period.

In Table 3.2, the net added income of students yields a cumulative discounted sum of approximately \$11.5 billion, the present value of all of the future income increments (see the bottom section of Column 4). This may also be interpreted as the gross capital asset value of the students' higher income stream. In effect, the aggregate 2012-13 student body is rewarded for its investment in North Carolina Community Colleges with a capital asset valued at \$11.5 billion.

The students' cost of attending the colleges is shown in Column 5 of Table 3.2, equal to a present value of \$4.9 billion. Note that costs occur only in the single analysis year and are thus already in current year dollars. Comparing the cost with the present value of benefits yields a student benefit-cost ratio of 2.3 (equal to \$11.5 billion in benefits divided by \$4.9 billion 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.²⁸ Table 3.2 shows students of North Carolina Community Colleges earning average returns of 12.0% on their investment

26 See the discussion of the alumni impact in Section 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.

27 The student discount rate is derived from the baseline forecasts for the 10-year zero coupon bond discount rate published by the Congressional Budget Office. See the Congressional Budget Office, Student Loan and Pell Grant Programs - March 2012 Baseline, Congressional Budget Office Publications, last modified March 13, 2012, accessed July 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43054_StudentLoanPellGrantPrograms.pdf.

28 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.

of time and money. This is a favorable return compared, for example, to approximately 1% on a standard bank savings account, or 7% on stocks and bonds (30-year average return).

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 12.0% student rate of return is a real rate. With an inflation rate of 2.5% (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 14.5%, higher than what is reported in Table 3.2.

The payback period is defined as the length of time it takes to entirely recoup the initial investment.²⁹ Beyond that point, returns are what economists would call pure costless rent. As indicated in Table 3.2, students at North Carolina Community Colleges see, on average, a payback period of 10.1 years on their forgone earnings and out-of-pocket costs.

3.2 SOCIETAL PERSPECTIVE

North Carolina benefits from the education

²⁹ Payback analysis is generally used by the business community to rank alternative investments when safety of investments is an issue. Its greatest drawback is that it takes no account of 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 or interest on loans.

that North Carolina Community Colleges provide through the income that 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 forgo services that they would have otherwise enjoyed if North Carolina Community Colleges did not exist. Society's investment in North Carolina Community Colleges stretches across a number of investor groups, from students to employers to taxpayers. We weigh the benefits generated by North Carolina Community Colleges to these investor groups against the total societal costs of generating those benefits. The total societal costs include all expenses of North Carolina Community Colleges except those for construction operations, all student expenses less tuition and fees, and all student opportunity costs, totaling \$6.9 billion (\$2.2 billion in expenses of North Carolina Community Colleges, \$286 million in student expenses, and \$4.4 billion in student opportunity costs).

On the benefits side, any benefits that accrue to North Carolina as a whole – including students, employers, taxpayers, and anyone else who stands to benefit from the activities of North Carolina Community Colleges – are counted as benefits under the social perspective. We group these benefits under the following broad headings: 1) increased income in the state, and 2) societal externalities stemming from improved health, reduced crime, and reduced unemployment in the state (see the Beekeeper Analogy box on the next page for a discussion of externalities). Both of these benefits components are described more fully in the following sections.

3.2.1 Income growth in the state

In the process of absorbing the newly-acquired skills of students that attend North Carolina

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 positive externalities such as beekeeping.

Educational institutions are like beekeepers. While their principal aim is to provide education and raise people’s incomes, in the process an array of external benefits are created. 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 societal benefits.

Community Colleges, not only does the productivity of North Carolina’s workforce increase, but also does the productivity of its physical capital and assorted infrastructure. 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.

Estimating the effect of North Carolina Community Colleges on income growth in the state begins with the present value of the students’ future income stream, which is displayed in Column 4 of Table 3.2. To this we apply a multiplier derived from EMSI’s SAM model to estimate the added labor income created in the state as students and businesses spend their higher incomes.³⁰ 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 North Carolina gross state product to total labor income in the state. We also include the spending impacts discussed in Section 2 that were created in 2012-13 by the operations of the colleges and their student spending.

The sum of the students’ higher incomes, multiplier effect, increase in non-labor income, and spending impacts comprises the gross added income that accrues to communities and citizens throughout the state of North Carolina. Not all of this income may be counted as benefits to the state, however. Some students leave the state during the course of their careers, and the higher income they receive as a result of their education leaves the state with them. To account for this dynamic, we combine student settlement data from the colleges with data on migration patterns from the U.S. Census Bureau to estimate the number of students who will leave the state workforce over time.

We apply another reduction factor to account for the students’ alternative educa-

30 For a full description of the EMSI SAM model, see Appendix 3.

tion opportunities. This is the same adjustment that we use in the calculation of the alumni impact in Section 2 and is designed to account for the counterfactual scenario where North Carolina Community Colleges 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 cannot be counted as new benefits to society. For this analysis, we assume an alternative education variable of 15%, meaning that 15% of the student population at the colleges would have generated benefits anyway even without the colleges. For more information on the calculation of the alternative education variable, see Appendix 6.

After adjusting for attrition and alternative education opportunities, we calculate the present value of the future added income that occurs in the state, equal to \$54.7 billion (this value appears again later in Table 3.3). Recall from the discussion of the 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 1.1%, the real treasury interest rate recommended by the Office for Management and Budget (OMB) for 30-year investments.³¹ In Section 4, we conduct a sensitivity analysis of this discount rate.

3.2.2 Societal savings

In addition to the creation of higher income in the state, education is statistically associated with a variety of lifestyle changes that generate

societal savings, also known as external or incidental benefits of education. These represent the avoided costs that would have otherwise been drawn from private and public resources absent the education provided by North Carolina Community Colleges. Societal benefits appear in Table 3.3 and break down into three main categories: 1) health savings, 2) crime savings, and 3) welfare and unemployment savings. Health savings include avoided medical costs, lost productivity, and other effects associated with smoking, alcoholism, obesity, mental illness, and drug abuse. Crime savings consist of avoided costs to the justice system (i.e., police protection, judicial and legal, and corrections), avoided victim costs, and benefits stemming from the added productivity of individuals who would have otherwise been incarcerated. Welfare and unemployment benefits comprise avoided costs due to the reduced number of social assistance and unemployment insurance claims.

The model quantifies societal 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, welfare, and unemployment at the national and state level. We spread the probabilities across the education ladder and multiply the marginal differences by the number of students who achieved CHEs at each step. The sum of these marginal differences counts as the upper bound measure of the number of students who, due to the education they received at the colleges, will not have poor health, commit crimes, or claim welfare and unemployment benefits. We dampen these results by the ability bias adjustment discussed earlier in this section and

31 See the Office of Management and Budget, Real Treasury Interest Rates in “Table of Past Years Discount Rates” from Appendix C of OMB Circular No. A-94 (revised December 2012).

in Appendix 5 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, welfare, and unemployment.³² Finally, we apply the same adjustments for attrition and alternative education to derive the net savings to society.

Table 3.3 below displays the results of the analysis. The first row shows the added income created in the state, equal to \$54.7 billion, from students' higher incomes and their multiplier effect, increase in non-labor income, and

spending impacts. Societal savings appear next, beginning with a breakdown of savings related to health. These savings amount to a present value of \$892.1 million, including 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. Crime savings amount to \$271 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 welfare and unemployment amount to \$10.5 million,

³² For a full list of the data sources used to calculate the societal externalities, see the References and Resource section. See also Appendix 8 for a more in-depth description of the methodology.

TABLE 3.3: PRESENT VALUE OF THE FUTURE ADDED INCOME AND SOCIETAL SAVINGS IN THE STATE (THOUSANDS)

ADDED INCOME	\$54,680,672
SOCIETAL SAVINGS	
Health	
Smoking	\$522,453
Alcoholism	\$41,124
Obesity	\$246,000
Mental illness	\$45,073
Drug abuse	\$37,477
Total health savings	\$892,127
Crime	
Criminal Justice System savings	\$202,184
Crime victim savings	\$17,974
Added productivity	\$50,865
Total crime savings	\$271,024
Welfare/unemployment	
Welfare savings	\$7,703
Unemployment savings	\$2,829
Total welfare/unemployment savings	\$10,532
TOTAL SOCIETAL SAVINGS	\$1,173,683
TOTAL, ADDED INCOME + SOCIETAL SAVINGS	\$55,854,355

Source: EMSI impact model.

TABLE 3.4: PROJECTED BENEFITS AND COSTS, SOCIETAL PERSPECTIVE

1	2	3	4
YEAR	BENEFITS TO SOCIETY (MILLIONS)	SOCIETAL COSTS (MILLIONS)	NET CASH FLOW (MILLIONS)
0	\$2,982	\$6,854	-\$3,872
1	\$811	\$0	\$811
2	\$982	\$0	\$982
3	\$1,182	\$0	\$1,182
4	\$1,402	\$0	\$1,402
5	\$1,716	\$0	\$1,716
6	\$1,777	\$0	\$1,777
7	\$1,837	\$0	\$1,837
8	\$1,897	\$0	\$1,897
9	\$1,955	\$0	\$1,955
10	\$2,012	\$0	\$2,012
11	\$2,068	\$0	\$2,068
12	\$2,122	\$0	\$2,122
13	\$2,174	\$0	\$2,174
14	\$2,223	\$0	\$2,223
15	\$2,271	\$0	\$2,271
16	\$2,315	\$0	\$2,315
17	\$2,356	\$0	\$2,356
18	\$2,395	\$0	\$2,395
19	\$2,430	\$0	\$2,430
20	\$2,461	\$0	\$2,461
21	\$2,488	\$0	\$2,488
22	\$2,511	\$0	\$2,511
23	\$2,530	\$0	\$2,530
24	\$2,544	\$0	\$2,544
25	\$2,543	\$0	\$2,543
26	\$2,535	\$0	\$2,535
27	\$2,507	\$0	\$2,507
28	\$2,396	\$0	\$2,396
29	\$2,215	\$0	\$2,215
30	\$1,453	\$0	\$1,453
31	\$911	\$0	\$911
PRESENT VALUE	\$55,854	\$6,854	\$49,000
Benefit-cost ratio			8.1
Payback period (no. of years)			4.6

Source: EMSI impact model.

stemming from a reduced number of persons in need of income assistance. All told, societal savings amounted to \$1.2 billion in benefits to communities and citizens in North Carolina.

The sum of the societal savings and the added income in the state is \$55.9 billion, as shown in the bottom row of Table 3.3. These savings accrue in the future as long as the 2012-13 student population of North Carolina Community Colleges remains in the workforce.

3.2.3 Return on investment to society

Table 3.4 on the previous page presents the stream of benefits accruing to North Carolina society and the total societal costs of generating those benefits. Comparing the present value of the benefits and the societal costs, we have a benefit-cost ratio of 8.1. This means that for every dollar invested in an education by North Carolina Community Colleges, whether it is the money spent on day-to-day operations of the colleges or money spent by students on tuition and fees, an average of \$8.10 in benefits will accrue to society in North Carolina.³³

³³ The rate of return is not reported for the societal perspective because the beneficiaries of the investment are not necessarily the same as the original investors.

3.3 TAXPAYER PERSPECTIVE

From the taxpayer perspective, the pivotal step here is to limit the overall public benefits shown in Tables 3.3 and 3.4 to those that specifically accrue to state and local government. For example, benefits resulting from income growth are limited to increased state and local tax payments. Similarly, savings related to improved health, reduced crime, and fewer welfare and unemployment claims 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.

3.3.1 Benefits to taxpayers

Table 3.5 presents the total added income from the colleges and the present value of the benefits to taxpayers. Added tax revenue is derived by multiplying the income growth figures from Table 3.3 by the prevailing state and local government tax rates. For the societal externalities, we claim only the benefits that reduce the demand for government-supported social services, or the benefits resulting from improved productivity among government employees. The present value of future tax

TABLE 3.5: PRESENT VALUE OF ADDED TAX REVENUE AND GOVERNMENT SAVINGS (THOUSANDS)

ADDED INCOME FROM NORTH CAROLINA COMMUNITY COLLEGES	
Added tax revenue	\$5,190,604
GOVERNMENT SAVINGS	
Health-related savings	\$156,980
Crime-related savings	\$209,012
Welfare/unemployment-related savings	\$10,532
Total government savings	\$376,524
TOTAL TAXPAYER BENEFITS	\$5,567,128

Source: EMSI impact model.

revenues and government savings thus comes to approximately \$5.6 billion.

3.3.2 Return on investment to taxpayers

Taxpayer costs are reported in Table 3.6 on the next page and come to \$1.4 billion, equal to the contribution of state and local government to North Carolina Community Colleges (including capital appropriations). In return for their public support, taxpayers are rewarded with an investment benefit-cost ratio of 4.1 ($= \$5.6 \text{ billion} \div \1.4 billion), indicating a profitable investment.

At 14.7%, the rate of return to state and local taxpayers is also favorable. As above, we assume a 1.1% discount rate when dealing with government investments and public finance issues.³⁴ 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 1.1% would mean that the colleges just pay their own way. In principle, governments could borrow monies used to support North Carolina Community Colleges and repay the loans out of the resulting added taxes and reduced government expenditures. A rate of return of 14.7%, on the other hand, means that North Carolina Community Colleges not only pay their own way, but also generate a surplus that state and local government can use to fund other programs. It is unlikely that other government programs could make such a claim.

3.3.3 With and without societal savings

Earlier in this section, societal benefits attributable to education (reduced crime, lower welfare, lower unemployment, and improved health) were defined as externalities that are incidental to the operations of North Carolina Community Colleges. 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 income) should be counted. Tables 3.4 and 3.6 are inclusive of societal benefits reported as attributable to North Carolina Community Colleges. Recognizing the other point of view, Table 3.7 shows rates of return for both the societal and taxpayer perspectives exclusive of societal benefits. As indicated, returns are still above threshold values (a benefit-cost ratio greater than 1.0 and a rate of return greater than 1.1%), confirming that taxpayers receive value from investing in North Carolina Community Colleges.

3.4 CONCLUSION

This section has shown that the education provided by North Carolina Community Colleges is an attractive investment to students with rates of return that exceed alternative investment opportunities. At the same time, the presence of the institutions expands the state economy and creates a wide range of positive societal benefits that accrue to taxpayers and communities in North Carolina.

³⁴ See Section 4 for a sensitivity analysis of this discount rate.

TABLE 3.6: PROJECTED BENEFITS AND COSTS, TAXPAYER PERSPECTIVE

1	2	3	4
YEAR	BENEFITS TO TAXPAYERS (MILLIONS)	STATE AND LOCAL GOV'T COSTS (MILLIONS)	NET CASH FLOW (MILLIONS)
0	\$280	\$1,366	-\$1,086
1	\$82	\$0	\$82
2	\$99	\$0	\$99
3	\$119	\$0	\$119
4	\$141	\$0	\$141
5	\$173	\$0	\$173
6	\$179	\$0	\$179
7	\$185	\$0	\$185
8	\$190	\$0	\$190
9	\$196	\$0	\$196
10	\$202	\$0	\$202
11	\$207	\$0	\$207
12	\$212	\$0	\$212
13	\$217	\$0	\$217
14	\$222	\$0	\$222
15	\$227	\$0	\$227
16	\$231	\$0	\$231
17	\$235	\$0	\$235
18	\$239	\$0	\$239
19	\$242	\$0	\$242
20	\$245	\$0	\$245
21	\$248	\$0	\$248
22	\$250	\$0	\$250
23	\$252	\$0	\$252
24	\$253	\$0	\$253
25	\$253	\$0	\$253
26	\$252	\$0	\$252
27	\$250	\$0	\$250
28	\$239	\$0	\$239
29	\$220	\$0	\$220
30	\$144	\$0	\$144
31	\$91	\$0	\$91
PRESENT VALUE	\$5,567	\$1,366	\$4,201
Internal rate of return			14.7%
Benefit-cost ratio			4.1
Payback period (no. of years)			8.6

Source: EMSI impact model.

TABLE 3.7: SOCIETAL AND TAXPAYER PERSPECTIVES WITH AND WITHOUT SOCIETAL SAVINGS

	INCLUDING SOCIETAL SAVINGS	EXCLUDING SOCIETAL SAVINGS
SOCIETAL PERSPECTIVE		
Net present value	\$49,000,342	\$45,047,747
Benefit-cost ratio	8.1	7.6
TAXPAYER PERSPECTIVE		
Net present value	\$4,200,824	\$3,824,299
Benefit-cost ratio	4.1	3.8
Internal rate of return	14.7%	13.6%
Payback period (no. of years)	8.6	9.2

Source: EMSI impact model.

4

SENSITIVITY ANALYSIS

Sensitivity analysis is the process by which researchers determine how sensitive the outputs of the model are to variations in the background data and assumptions, especially if there is any uncertainty in the variables. Sensitivity analysis is also useful for identifying a plausible range wherein the results will fall should any of the variables deviate from expectations. In this section 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, and 4) the discount rate.

4.1 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 publicly-funded institutions in the state. Given the difficulty in accurately specifying the alternative education

variable, we test the sensitivity of the taxpayer and societal 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 4.1. 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 redone introducing one

TABLE 4.1: SENSITIVITY ANALYSIS OF ALTERNATIVE EDUCATION VARIABLE, TAXPAYER AND SOCIETAL PERSPECTIVE

% VARIATION IN ASSUMPTION	-50%	-25%	-10%	BASE CASE	10%	25%	50%
Alternative education variable	8%	11%	14%	15%	17%	19%	23%
SOCIETAL PERSPECTIVE							
Net present value (millions)	\$53,291	\$50,853	\$49,390	\$49,000	\$47,439	\$45,976	\$43,538
Benefit-cost ratio	8.8	8.4	8.2	8.1	7.9	7.7	7.4
TAXPAYER PERSPECTIVE							
Net present value (millions)	\$4,692	\$4,446	\$4,299	\$4,201	\$4,103	\$3,955	\$3,710
Rate of return	16%	15%	15%	15%	14%	14%	13%
Benefit-cost ratio	4.4	4.3	4.1	4.1	4.0	3.9	3.7

TABLE 4.2: 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)	\$9,790	\$14,685	\$17,622	\$19,580	\$21,538	\$24,475	\$29,369

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 14.7% to 14.4%. Likewise, a decrease of 10% (from 15% to 14%) in the assumption increases the rate of return from 14.7% to 15.0%.

Based on this sensitivity analysis, the conclusion can be drawn that North Carolina Community Colleges investment analysis results from the taxpayer and societal 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 0, benefit-cost ratio greater than 1, and rate of return greater than the discount rate of 1.1%), 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 societal perspective is not very sensitive.

4.2 LABOR IMPORT EFFECT VARIABLE

The labor import effect variable only affects the alumni impact calculation in Table 2.6. In the model we assume a labor import effect variable of 50%, which means that we claim only 50% of the initial labor income generated by increased alumni productivity. The other

50% we assume would have been created in the state anyway – even without North Carolina Community Colleges – since the businesses that hired North Carolina Community Colleges’ students could have substituted some of these workers with equally-qualified people from outside the state had there been no students from North Carolina Community Colleges to hire.

Table 4.2 presents the results of the sensitivity analysis for the labor import effect variable. As above, the assumption increases and decreases relative to the base case of 50% by the increments indicated in the table. Alumni impacts attributable to North Carolina Community Colleges, for example, range from a low of \$9.8 billion at a -50% variation to a high of \$29.4 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 and past student productivity increases as well. The impact stemming from the alumni still remains a sizeable factor in the North Carolina economy, even under the most conservative assumptions.

4.3 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 students that are employed while attending the colleges, and 2) the percentage of earnings that working students receive relative to the income they would have received had they not chosen to attend the colleges. Both employment variables affect the investment analysis results from the student perspective.

Students incur substantial expense by attending North Carolina Community 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 55% of students who reported their employment status are employed, based on data provided by North Carolina Community Colleges.³⁵ 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 students that are working while attending the colleges earn only 58%, on average, of the income that they would have statistically received if not attending North Carolina Community Colleges. This suggests that many students hold part-time jobs that accommodate their attendance at North Caro-

lina Community Colleges, though it is at an additional cost in terms of receiving a wage that is less than what they might otherwise make. The 58% variable is an estimation based on the average hourly wages of the most common jobs held by students while attending the colleges 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 58% estimate is tested in the sensitivity analysis by changing it to 100% and then to 0%.

The changes generate results summarized in Table 4.3, with A defined as the percent of 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 55% and B equal to 58%. 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%.

- **Scenario 1:** Increasing the percentage of students employed (A) from 55% to 100%, the net present value, internal rate of return, and benefit-cost ratio improve to \$7.7 billion, 15.0%, and 3.0,

35 EMSI provided an estimate of the percentage of students employed in the event that the colleges was unable to collect the data.

TABLE 4.3: SENSITIVITY ANALYSIS OF STUDENT EMPLOYMENT VARIABLES

VARIATIONS IN ASSUMPTIONS	NET PRESENT VALUE (MILLIONS)	INTERNAL RATE OF RETURN	BENEFIT-COST RATIO
Base case: A = 55%, B = 58%	\$6,569.3	12.0%	2.3
Scenario 1: A = 100%, B = 58%	\$7,673.1	15.0%	3.0
Scenario 2: A = 55%, B = 100%	\$7,973.1	16.1%	3.3
Scenario 3: A = 100%, B = 100%	\$10,235.0	37.8%	9.3
Scenario 4: A = 0%, B = 0%	\$5,231.4	9.5%	1.8

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

respectively, relative to base case results. Improved results are attributable to a lower opportunity cost of time; all students are employed in this case.

- **Scenario 2:** Increasing earnings relative to statistical averages (B) from 58% to 100%, the net present value, internal rate of return, and benefit-cost ratio results improve to \$8 billion, 16.1%, and 3.3, 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 \$10.2 billion, 37.8%, and 9.3, 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 \$5.2 billion, 9.5%, and 1.8, respectively, relative to base case results. These results are reflective of an increased opportunity cost; none of the students are employed in this case.³⁶

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 Section 3 are realistic, indicating that investments in North Carolina Community Colleges generate excellent returns, well above the long-term average percent rates of return in stock and bond markets.

4.4 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 forgo the use of his money in the present if he wishes 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 students and a 1.1% discount rate for society and taxpayers.³⁷ Similar to the sensitivity analysis of the alternative education

³⁶ 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.

³⁷ These values are based on the baseline forecasts for the 10-year zero coupon bond discount rate published by the Congressional Budget Office, and the real treasury interest rates recommended by the Office for Management and Budget (OMB) for 30-year investments. See the Congressional Budget Office, Student Loan and Pell Grant Programs - March 2012 Baseline, and the Office of Management and Budget, Circular A-94 Appendix C, last modified December 2012.

TABLE 4.4: SENSITIVITY ANALYSIS OF DISCOUNT RATE

% VARIATION IN ASSUMPTION	-50%	-25%	-10%	BASE CASE	10%	25%	50%
STUDENT PERSPECTIVE							
Discount rate	2.2%	3.4%	4.0%	4.5%	4.9%	5.6%	6.7%
Net present value (millions)	\$11,019	\$8,546	\$7,309	\$6,569	\$5,891	\$4,975	\$4,494
Benefit-cost ratio	3.3	2.7	2.5	2.3	2.2	2.0	1.9
SOCIETAL PERSPECTIVE							
Discount rate	0.6%	0.8%	1.0%	1.1%	1.2%	1.4%	1.7%
Net present value (millions)	\$54,061	\$51,456	\$49,965	\$49,000	\$48,058	\$46,686	\$44,502
Benefit-cost ratio	8.9	8.5	8.3	8.1	8.0	7.8	7.5
TAXPAYER PERSPECTIVE							
Discount rate	0.6%	0.8%	1.0%	1.1%	1.2%	1.4%	1.7%
Net present value (millions)	\$4,706	\$4,446	\$4,297	\$4,201	\$4,107	\$3,970	\$3,752
Benefit-cost ratio	4.4	4.3	4.1	4.1	4.0	3.9	3.7

variable, we vary the base case discount rates for students, society, and taxpayers on either side by increasing the discount rate by 10%, 25%, 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, society, and taxpayers in Table 4.4.

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 student discount rate by 50% (from 4.5% to 6.7%) reduces the students' benefit-cost ratio from 2.3 to 1.9. Conversely, reducing the discount rate for students by 50% (from 4.5% to 2.2%) increases the benefit-cost ratio from 2.3 to 3.3. 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 societal perspective (from a 8.9 benefit-cost ratio at a -50% variation from the base case, to a 7.5 benefit-cost ratio at a 50% variation from the base case).

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APPENDIX 1

NORTH CAROLINA COMMUNITY COLLEGES

Alamance Community College	Lenoir Community College
Asheville-Buncombe Technical Community College	Martin Community College
Beaufort County Community College	Mayland Community College
Bladen Community College	McDowell Technical Community College
Blue Ridge Community College	Mitchell Community College
Brunswick Community College	Montgomery Community College
Caldwell Community College and Technical Institute	Nash Community College
Cape Fear Community College	Pamlico Community College
Carteret Community College	Piedmont Community College
Catawba Valley Community College	Pitt Community College
Central Carolina Community College	Randolph Community College
Central Piedmont Community College	Richmond Community College
Cleveland Community College	Roanoke-Chowan Community College
Coastal Carolina Community College	Robeson Community College
College of the Albemarle	Rockingham Community College
Craven Community College	Rowan-Cabarrus Community College
Davidson County Community College	Sampson Community College
Durham Technical Community College	Sandhills Community College
Edgecombe Community College	Southeastern Community College
Fayetteville Technical Community College	South Piedmont Community College
Forsyth Technical Community College	Southwestern Community College
Gaston College	Stanly Community College
Guilford Technical Community College	Surry Community College
Halifax Community College	Tri-County Community College
Haywood Community College	Vance-Granville Community College
Isothermal Community College	Wake Technical Community College
James Sprunt Community College	Wayne Community College
Johnston Community College	Western Piedmont Community College
	Wilkes Community College
	Wilson Community College

APPENDIX 2

GLOSSARY OF TERMS

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

Alternative use of funds A measure of how monies that are currently used to fund the colleges might have otherwise been used if the colleges 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.

Credit hour equivalent A 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.

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 total revenues, demand is elastic. If it decreases total revenues, demand is inelastic. If total revenues remain the same, elasticity of demand is unitary.

Externalities Impacts (positive and negative) for which there is no compensation. Positive externalities of education include improved social behaviors such as lower crime, reduced welfare and unemployment, and improved health. 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 state product Measure of the final

value of all goods and services produced in a state after netting out the cost of goods used in production. Alternatively, gross state product (GSP) 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 state product is also sometimes called value added or income.

Initial effect Income generated by the initial injection of monies into the economy through the payroll of the colleges 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. In an educational setting, when colleges pay wages and salaries and spend money for supplies in the state, 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.

Labor income Income that is received as a result of labor; i.e., wages.

Multiplier effect Additional income created in the economy as the colleges and their students spend money in the state. It consists of the income created by the supply chain of the industries initially affected by the spending of the colleges and their 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).

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 forgone from alternative B once a decision is made to allocate resources to alternative A. Or, if individuals choose to attend college, they forgo earnings that they would have received had they chosen instead to work full-time. Forgone 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:

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

APPENDIX 3

EMSI MR-SAM

EMSI's Multi-Regional Social Accounting Matrix (MR-SAM) represents the flow of all economic transactions in a given region. It replaces EMSI's previous input-output (IO) model, which operated with some 1,100 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 regional economy as a result of industries entering or exiting the region. The SAM model performs the same tasks as the old IO model, but it also does much more. Along with the same 1,100 industries, government, household and investment sectors embedded in the old IO tool, the 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.

A3.1 DATA SOURCES FOR THE MODEL

The EMSI 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 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 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 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 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 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.
- **BLS Consumer Expenditure Survey** (CEX) reports on the buying habits of consumers along with some information as to their income, consumer unit, and demographics. EMSI 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 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 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's gravitational flows model that estimates the amount of trade between counties in the country.

A3.2 OVERVIEW OF THE MR-SAM MODEL

EMSI'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 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).

A3.2.1 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 1,100 detailed accounts.

A3.2.2 Multi-regional aspect of the 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'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'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.

A3.3 COMPONENTS OF THE EMSI MR-SAM MODEL

The EMSI 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's internally created data are used to a great extent throughout the processes described below, but its creation is not described in this appendix.

A3.3.1 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's industry earnings, occupational average earnings, and staffing patterns.

Each matrix starts with a region's staff-

ing 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 is 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.

A3.3.2 Commuting model

The commuting sub-model is an integral part of EMSI'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 BLS' OnTheMap dataset, Census' Journey-to-Work, BEA's LPI CA91 and CA05 tables, and some of EMSI'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.

A3.3.3 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 uses a modification of the “diagonal similarity scaling” algorithm to balance the national SAM.

A3.3.4 Gravitational flows model

The most important piece of the EMSI MR-SAM model is the gravitational flows model that pro-

duces 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 4

VALUE PER CREDIT HOUR EQUIVALENT & 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.

A3.1 VALUE PER CHE

Typically the educational achievements of students are marked by the credentials they earn. However, not all students who attended North Carolina Community Colleges in the 2012-13 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 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 student generally completes 60 CHEs in order to move from a high school diploma to an associate's degree, another 60 CHEs to move from an associate's degree to a

bachelor'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 1.7. For example, the difference in earnings between a high school diploma and an associate's degree is \$10,800. We spread this \$10,800 wage differential across the 60 CHEs that occur between the high school diploma and the associate's degree, applying a ceremonial "boost" to the last CHE in the stage to mark the achievement of the degree.³⁸ We repeat this process for each education level in the ladder.

Next we map the CHE production of the 2012-13 student population to the education ladder. Table 1.4 provides information on the CHE production of students attending North Carolina Community Colleges, broken out by educational achievement. In total, students completed 6.7 million CHEs during the analysis year, excluding the CHE production of personal

38 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 college impact model are derived from Jaeger and Page (1996).

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's 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.

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

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: 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 A3.1 displays the result for the students' aggregate annual increase in income (ΔE), a total of \$1.3 billion. By dividing this value by the students' total production of 6.7 million CHEs during the analysis year, we derive an overall value of \$193 per CHE.

A3.2 MINCER FUNCTION

The \$193 value per CHE in Table A3.1 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

TABLE A4.1: AGGREGATE ANNUAL INCREASE IN INCOME OF STUDENTS AND VALUE PER CHE

Aggregate annual increase in income	\$981,706,104
Total credit hour equivalents (CHEs) in FY 2012-13*	6,099,393
Value per CHE	\$161

* Excludes the CHE production of personal enrichment students.
Source: EMSI impact model.

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.³⁹ 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 United States based Mincer coefficients estimated by Polachek (2003).

Figure A3.1 on the next page 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,

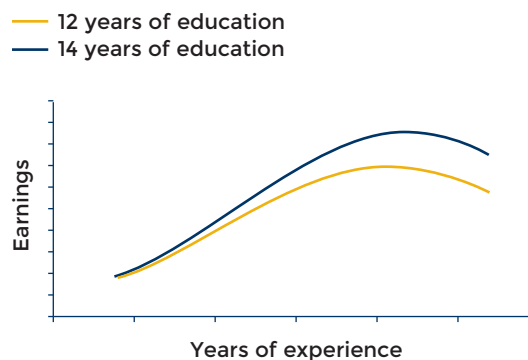
39 See Mincer (1958 and 1974).

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.

In calculating the alumni impact in Section 2, we use the slope of the curve in Mincer's earnings function to condition the \$193 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 \$193 value per CHE applies only to the CHE production of students precisely at the midpoint of their careers during the analysis year.

In Section 3 we again apply the Mincer func-

FIGURE A3.1: LIFECYCLE CHANGE IN EARNINGS, 12 YEARS VERSUS 14 YEARS OF EDUCATION



tion, this time to project the benefits stream of the 2012-13 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 A5.1.

APPENDIX 5

ALTERNATIVE EDUCATION VARIABLE

In a scenario where North Carolina Community Colleges do not exist, some of their students would still be able to avail themselves of an alternative comparable education. These students create benefits in the state even in the absence of the colleges. The alternative education variable accounts for these students and is used to discount the benefits presented in the analysis.

Recall this analysis considers only relevant economic information regarding North Carolina Community Colleges. Considering the existence of various other academic colleges surrounding North Carolina Community Colleges, we have to assume that a portion of the students could find alternative educations and either remain in or return to North Carolina. For example, some students may participate in online programs while remaining in the state. Others may attend an out-of-state institution and return to North Carolina upon completing their studies. For these students – who would have found an alternative education and produced benefits in North Carolina regardless of the presence of North Carolina Community Colleges – we dis-

count the benefits attributed to North Carolina Community Colleges. An important distinction must be made here: the benefits from students who would find alternative educations outside the state and not return to North Carolina are not discounted. Because these benefits would not occur in the state without the presence of North Carolina Community Colleges, they must be included.

In the absence of North Carolina Community Colleges, we assume 15% of students attending North Carolina Community Colleges would find alternative education opportunities and remain in or return to North Carolina. We account for this by discounting the alumni impact, the benefits to taxpayers, and the benefits to society in North Carolina in Sections 3 and 4 by 15%. In other words, we assume 15% of the benefits created by students attending North Carolina Community Colleges would have occurred anyways in the counterfactual scenario where North Carolina Community Colleges do not exist. A sensitivity analysis of this adjustment is presented in Section 4.

APPENDIX 6

OVERVIEW OF INVESTMENT ANALYSIS MEASURES

The purpose of this appendix is to provide context to the investment analysis results using the simple hypothetical example summarized in Table A6.1 below. The table shows the projected benefits and costs for a single student over time and associated investment analysis results.⁴⁰

Assumptions are as follows:

- Benefits and costs are projected out 10 years into the future (Column 1).

⁴⁰ Note that this is a hypothetical example. The numbers used are not based on data collected from an existing college.

- The student attends one of the colleges for one year, and the cost of tuition is \$1,500 (Column 2).
- Earnings forgone while attending one of the colleges for one year (opportunity cost) come to \$20,000 (Column 3).
- Together, tuition and earnings forgone cost sum to \$21,500. This represents the out-of-pocket investment made by the student (Column 4).
- In return, the student earns \$5,000 more per year than he would have otherwise

TABLE A6.1: 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
Internal rate of return					18.0%
Benefit-cost ratio					1.7
Payback period					4.2 years

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 A6.1.

A6.1 NET PRESENT VALUE

The student in Table A6.1 can choose either to attend one of the colleges or to forgo 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 income 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 A6.1, 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 earn-

ings forgone) 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.⁴¹

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.

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 forgone). As indicated in Table A6.1, 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.

41 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 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.

A6.2 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 A6.1. 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 A6.1. 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 incomes 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 7% 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).

A5.3 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.

A6.4 PAYBACK PERIOD

This is the length of time from the beginning of the investment (consisting of tuition and earnings forgone) until higher future earnings give a return on the investment made. For the student in Table A6.1, 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 forgone 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.

APPENDIX 7

SOCIETAL EXTERNALITIES

Education has a predictable and positive effect on a diverse array of societal benefits. These, when quantified in dollar terms, represent significant societal savings that directly benefit society communities and citizens throughout North Carolina, including taxpayers. In this appendix we discuss the following three main benefit categories: 1) improved health, 2) reductions in crime, and 3) reductions in welfare and unemployment.

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.

A7.1 HEALTH

Statistics clearly show the correlation between increases in education and improved health. The manifestations of this are found in five health-related variables: smoking, alcoholism, obesity, mental illness, 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.

A7.1.1 Smoking

Despite a marked decline over the last several decades in the percentage of U.S. residents that smoke, a sizeable percentage of the U.S. population still uses tobacco. 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 A7.1 shows the prevalence of cigarette smoking among adults aged 25 years and over, based on data provided by the National Health Interview Survey.⁴² As indicated, the percent of persons who smoke begins to decline beyond the level of high school education.

The Centers for Disease Control and Preven-

42 Centers for Disease Control and Prevention, "Table 61. Age-adjusted prevalence of current cigarette smoking among adults aged 25 and over, by sex, race, and education level: United States, selected years 1974-2011," National Health Interview Survey, 2011.

FIGURE A7.1: PREVALENCE OF SMOKING AMONG U.S. ADULTS BY EDUCATION LEVEL

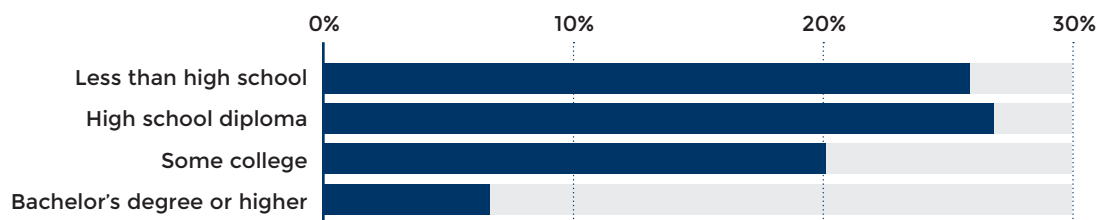
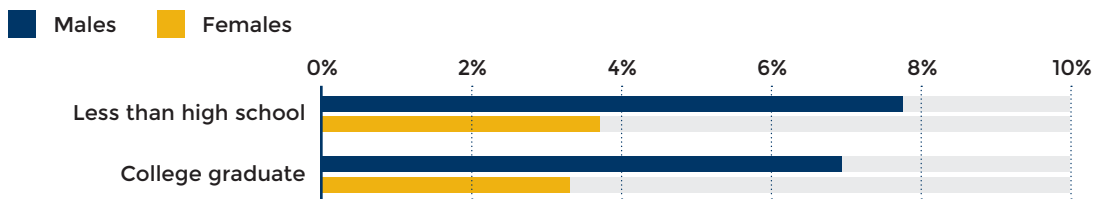


FIGURE A7.2: PREVALENCE OF ALCOHOL DEPENDENCE OR ABUSE BY SEX AND EDUCATION LEVEL



tion (CDC) reports the percentage of adults who are current smokers by state.⁴³ We use this information to create an index value by which we adjust the national prevalence data on smoking to each state. For example, 21.8% of North Carolina's adults were smokers in 2011, relative to 21.2% for the nation. We thus apply a scalar of 1.0 to the national probabilities of smoking in order to adjust them to the state of North Carolina.

A7.1.2 Alcohol abuse

Alcoholism is difficult to measure and define. There are many patterns of drinking, ranging from abstinence to heavy drinking. Alcohol abuse is riddled with societal costs, including healthcare expenditures for treatment, prevention, and support; workplace losses due to reduced worker productivity; and other effects.

Figure A7.2 compares the percent of males and females aged 26 and older that abuse or depend on alcohol at the less than high school level to the prevalence rate of alcoholism among college graduates, based on data supplied by the Substance Abuse and Mental Health Services Administration (SAMHSA).⁴⁴

These statistics give an indication of the correlation between education and the reduced probability of alcoholism. As indicated, alcohol dependence or abuse falls from a 7.7% prevalence rate among males with less than a high school diploma to a 6.9% prevalence rate among males with a college degree. Similarly, alcohol dependence or abuse among females ranges from a 3.7% prevalence rate at the less than high school level to a 3.3% prevalence rate at the college graduate level.

A7.1.3 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.⁴⁵ The CDC also reports the prevalence of obesity among adults by state.⁴⁶

Data for Figure A7.3 was provided by the

43 Centers for Disease Control and Prevention, "Adults who are current smokers" in "Tobacco Use – 2011," Behavioral Risk Factor Surveillance System Prevalence and Trends Data, accessed August 2013, <http://apps.nccd.cdc.gov/brfss/list.asp?cat=TU&yr=2011&qkey=8161&state=All>.

44 Substance Abuse and Mental Health Services Administration, "Table 5.7B - Substance Dependence or Abuse in the Past Year among Persons Aged 26 or Older, by Demographic Characteristics: Percentages, 2010 and

2011," Center for Behavioral Health Statistics and Quality, National Survey on Drug Use and Health, 2010 and 2011.

45 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.

46 Centers for Disease Control and Prevention, "Adult Obesity Facts," Overweight and Obesity, accessed August 2013, <http://www.cdc.gov/obesity/data/adult.html#Prevalence>.

FIGURE A7.3: PREVALENCE OF OBESITY BY EDUCATION LEVEL

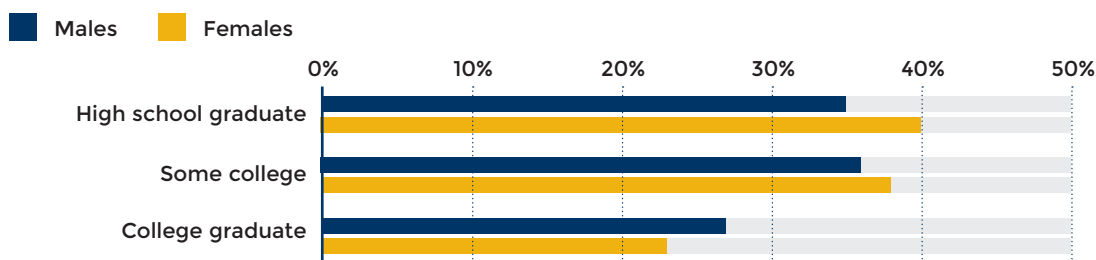
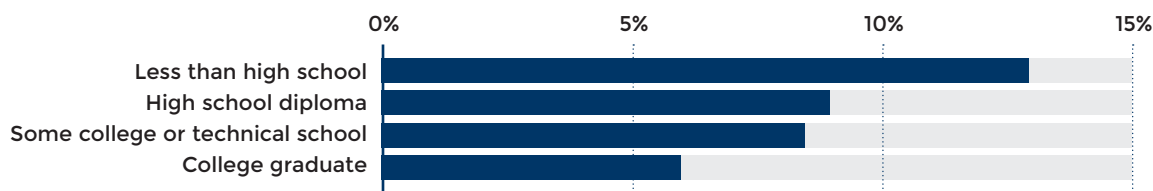


FIGURE A7.4: PREVALENCE OF FREQUENT MENTAL DISTRESS BY EDUCATION LEVEL



National Center for Health Statistics which shows the prevalence of obesity among adults aged 20 years and over by education and sex.⁴⁷ As indicated, college graduates are less likely to be obese than individuals with a high school diploma. However, the prevalence of obesity among males with some college is actually greater than males with no more than a high school diploma. In general, though, obesity tends to decline with increasing levels of education.

A7.1.4 Mental illness

Capturing the full economic cost of mental disorders is problematic because many of the costs are hidden or difficult to detach from others externalities, such as drug abuse or alcoholism. For this reason, this study only examines the costs of absenteeism caused by depression in the workplace. Figure A7.4

summarizes the prevalence of self-reported frequent mental distress among adults by education level, based on data supplied by the CDC.⁴⁸ As shown, people with higher levels of education are less likely to suffer from mental illness, with the prevalence of mental illness being the highest among people with less than a high school diploma.

A7.1.5 Drug abuse

The burden and cost of illicit drug abuse is enormous in our society, but little is known about potential costs and effects at a population 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

47 Cynthia L. Ogden, Molly M. Lamb, Margaret D. Carroll, and Katherine M. Flegal, "Figure 3. Prevalence of obesity among adults aged 20 years and over, by education, sex, and race and ethnicity: United States 2005-2008" in "Obesity and Socioeconomic Status in Adults: United States 2005-2008," NCHS data brief no. 50, Hyattsville, MD: National Center for Health Statistics, 2010.

48 Centers for Disease Control and Prevention, "Table 1. Number of respondents to a question about mental health and percentage who self-reported frequent mental distress (FMD), by demographic characteristics -- United States, Behavioral Risk Factor Surveillance System, 1993-1996" in "Self-Reported Frequent Mental Distress Among Adults -- United States, 1993-1996." *Morbidity and Mortality Weekly Report* 47, no. 16 (May 1998): 325-331.

FIGURE A7.5: PREVALENCE OF ILLICIT DRUG DEPENDENCE OR ABUSE BY EDUCATION LEVEL

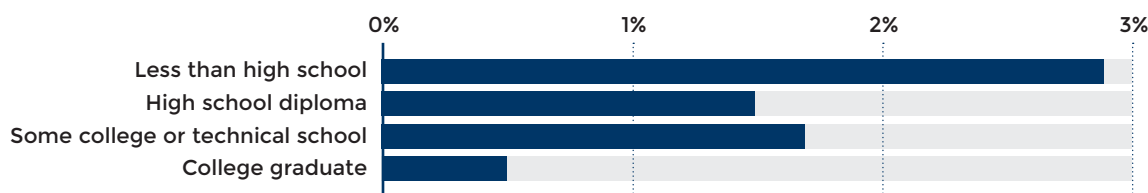
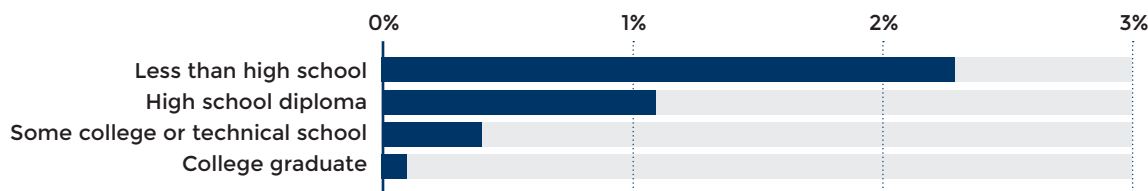


FIGURE A7.6: INCARCERATION RATES BY EDUCATION LEVEL



will abuse drugs is 2.9%, nearly six times greater than the probability of drug abuse for college graduates (0.5%). This relationship is presented in Figure A7.5 based on data supplied by SAMHSA.⁴⁹ Health costs associated with illegal drug use are also available from SAMSHA, with costs to state and local government representing 48% of the total cost related to illegal drug use.⁵⁰

A7.2 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 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 A7.6 displays the probability that an individual will be incarcerated by education level. Data are derived from the breakdown of the inmate population by education level in federal, state, and local prisons as provided by the Bureau of Justice Statistics,⁵¹ divided by the total adult population. As indicated, incarceration drops on a sliding scale as education levels rise.

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

49 Substance Abuse and Mental Health Services Administration, National Survey on Drug Use and Health, 2010 and 2011.

50 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, 2005" in *National Expenditures for Mental Health Services & Substance Abuse Treatment, 1986 – 2005*. DHHS Publication No. (SMA) 10-4612. Rockville, MD: Center for Mental Health Services and Center for Substance Abuse Treatment, Substance Abuse and Mental Health Services Administration, 2010.

51 Caroline Wolf Harlow. "Table 1. Educational attainment for State and Federal prison inmates, 1997 and 1991, local jail inmates, 1996 and 1989, probationers, 1995, and the general population, 1997" in "Education and Correctional Populations." Bureau of Justice Statistics Special Report, January 2003, NCJ 195670. Accessed August 2013. <http://bjs.ojp.usdoj.gov/index.cfm?ty=pbdetail&iid=814>.

tangible out-of-pocket costs, while the higher end includes intangible costs related to pain and suffering (McCollister et al., 2010).

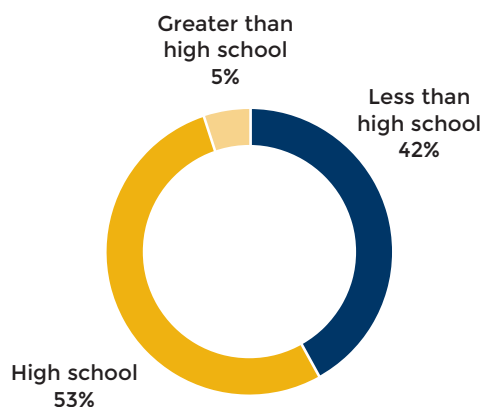
Yet another measurable benefit is the added economic productivity of people who are gainfully employed, all else being equal, and not incarcerated. The measurable productivity benefit is simply the number of additional people employed multiplied by the average income of their corresponding education levels.

A7.3 WELFARE AND UNEMPLOYMENT

Statistics show that as education levels increase, the number of welfare and unemployment applicants 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.⁵²

Figure A7.7 relates the breakdown of TANF recipients by education level, derived from data supplied by the U.S. Department of Health and Human Services.⁵³ As shown, the demographic

FIGURE A7.7: BREAKDOWN OF TANF RECIPIENTS BY EDUCATION LEVEL



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 A7.8. These data are supplied by the Bureau of Labor Statistics.⁵⁴ As shown, unemployment rates range from 12.4% for those with less than a high school diploma to 4.0% for those at the bachelor's degree level or higher.

for Needy Families - Active Cases: Percent Distribution of TANF Adult Recipients by Educational Level, FY 2009" in Temporary Assistance for Needy Families Program Ninth Report to Congress, 2012.

⁵⁴ 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. Accessed August 2013. <http://www.bls.gov/cps/cpsaat07.pdf>.

FIGURE A7.8: UNEMPLOYMENT BY EDUCATION LEVEL

