

Broad & Narrow Perspectives

State and local taxpayers earn 10.1% rate of return on their investment in the Los Angeles Community College District.

The Los Angeles Community College District adds more money to the state treasury than it takes out. Not only does the District pull its own weight, but it also effectively subsidizes other sectors funded by the taxpayers. Absent the District, taxes would actually have to be raised in order to maintain services in all other sectors at their current levels. The return on investment is considered from two taxpayer perspectives: broad and narrow.

Broad Investment Perspective

The broad perspective adds up all benefits attributable to the LACCD, regardless of recipient, and compares the total to the original investment made. This is called the “benefit/cost ratio.” If the ratio is less than 1.0, the investment is not worthwhile; if it is greater, the investment is considered sound.

For example, a transportation authority might justify a new road by showing that savings in travel time and vehicle expenses accrued by thousands of drivers exceed the project’s cost. Public parks are justified by showing that recreation, scenic, and other values enjoyed by park users exceed the cost of park infrastructure, operation, and the net value of the park’s land and resources not used for other purposes. So the broad perspective counts all benefits, not just those that accrue back to state or local government.

Benefits generated by the District also accrue to different groups. Students benefit from higher incomes, employers benefit from increased worker productivity, and the public at large benefits from an expanded economic base. The public also enjoys a variety of external social benefits, such as reduced crime, lower welfare and unemployment, improved health, and less absenteeism from work. All of these are tallied up and compared to the investment made by state and local government, or the taxpayers. A broad perspective benefit/cost ratio greater than 1.0 is a minimal indicator of a worthwhile public investment.

Counting benefits and costs in this way, the Los Angeles Community College District’s benefit/cost ratio is 15. In other words, the cumulative added value attached to each dollar invested will have a present value of \$15 by the end of the students’ working career.

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Narrow Investment Perspective

The narrow investment perspective counts only benefits that can be entered into the books of state and local government. For example, educated workers earn more and thus pay more taxes. Furthermore, because state and local government bears part of the cost of crime, its budget benefits from education’s crime-reducing effect, and the same is true for other benefits of an educated populace. The bottom line: State and local government receives returns from its support of the Los Angeles Community College District in the form of increased tax revenue and savings associated with avoided social costs.

Worthwhile public projects often generate negative narrow perspective returns, because the role of government is to provide services that the public wants but that the business sector may find unprofitable. Considerable funds are spent on public parks, for example, yet they yield little or no direct return. From a narrow investment perspective, taxpayer returns are negative, though the park is justified by the benefits tracked under the broad perspective.

But unlike most government endeavors, funding for the District generates strong results from *both* broad and narrow perspectives. Economists generally assume a 4% discount rate in analyzing government investments, assuming that governments can obtain unsecured loans at a rate of 4% or receive a 4% return on any excess funds, if they were invested. *Since the District’s narrow rate of return of 10.1% is greater than 4%, the state government actually makes money on the investment. By funding the District, therefore, other recipients of state funding are actually subsidized through the revenues generated by the District.*

Narrow Investment Results

