



# Analysis of the Economic Impact and Return on Investment of Education

THE ECONOMIC VALUE OF  
HOLLAND COLLEGE

April 2018

A photograph of a large, multi-story brick building with a central entrance, surrounded by trees and a fence. A maroon wavy graphic is overlaid on the top of the image.

# EXECUTIVE SUMMARY

 Emsi

# Executive summary

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

The value of HC influences both the lives of students and the Prince Edward Island economy. The college serves a range of industries in Prince Edward Island and supplies local businesses with skilled workers. Society as a whole in Prince Edward Island benefits from an expanded economy and improved quality of life. The benefits created by HC extend as far as the provincial government, in the form of increased tax revenues and public sector savings.

This study investigates the economic impacts created by HC on the business community and the benefits that the college generates in return for the investments made by its key stakeholder groups—students, society, and taxpayers. For the purposes of this study, the region the college

serves is Prince Edward Island. The following two analyses are presented:

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

All results reflect student and financial data for fiscal year (FY) 2016-17. Impacts on the provincial business community are reported under the economic impact analysis. Results are measured in terms of added income. The returns on investment to students, society, and taxpayers are reported under the investment analysis. Both analyses are described more fully in the following sections.



# Economic impact analysis

HC promotes economic growth in Prince Edward Island in a variety of ways. In FY 2016-17, the college employed 533 full-time equivalent employees. The college spent a total of \$35.8 million on payroll and an additional \$23.3 million to support its operations. HC is a primary source of education to provincial residents and a supplier of trained workers to provincial industries, and the living expenses of students benefit local businesses.

## OPERATIONS SPENDING IMPACT

HC is an important employer in Prince Edward Island. All of the college’s employees live in the province, and much of their spending on groceries, eating out, clothing, and other household expenses impacts the provincial economy. Additionally, HC is itself a large-scale buyer of goods and services. Each year, the college spends millions of dollars in Prince Edward Island to cover its day-to-day expenses for facilities, professional services, and supplies.

The total income that HC created during the analysis year as a result of its day-to-day operations was \$42 million, which is equivalent to supporting 613 jobs in the province. This figure represents the college’s payroll, the multiplier effects generated by the spending of the college and its employees, and a downward adjustment to account for funding that the college received from provincial sources.

## APPLIED RESEARCH SPENDING IMPACT

Applied research activities impact the economy by employing people and requiring the purchase of equipment and other supplies and services. These efforts attract new dollars to the province and support economic development in Prince Edward Island.

In FY 2016-17, HC spending on applied research and development activities created a net total of \$1.2 million in added income for the provincial economy. This is equivalent to supporting 17 jobs.

## STUDENT SPENDING IMPACT

Hundreds of students, including international students, relocated to Prince Edward Island to attend school at HC in FY 2016-17. In addition, a number of in-province students would have left the area for other education opportunities if not for the existence of HC. While attending, these relocated and retained students spent \$22.7 million to purchase groceries, rent accommodation, pay for transportation, and so on. A significant portion of these expenditures occurred in the province, generating \$10.6 million in new income in the economy during the analysis year, equivalent to supporting 271 jobs.

**TABLE 1:** Impacts created by HC in FY 2016-17

ADDED INCOME	JOBS
<b>\$42 million</b>	<b>613</b>
Operations spending impact	
<b>\$1.2 million</b>	<b>17</b>
Applied research spending impact	
<b>\$10.6 million</b>	<b>271</b>
Student spending impact	
<b>\$174.6 million</b>	<b>2,070</b>
Alumni impact	
<b>\$228.4 million</b>	<b>2,971</b>
Total impact	



## INTERNATIONAL STUDENT SPENDING IMPACT

In FY 2016-17, 240 international students relocated to Prince Edward Island to attend HC. The money that these students spent at local businesses toward living expenses is attributable to HC. These expenditures added \$1.3 million in income to the Prince Edward Island economy, which is equivalent to supporting 35 jobs. This impact and the corresponding jobs supported are included in HC's student spending impact.

## ALUMNI IMPACT

The education and training HC provides for provincial residents results in the greatest impact. Since the college was established, students have studied at HC and entered the workforce with newly acquired skills. Today, thousands of former students are employed in Prince Edward Island.

During the analysis year, former students of HC generated \$174.6 million in added income in the province, equivalent to supporting 2,070 jobs. This figure represents the higher wages that former students earned during the year, the increased output of the businesses that employed the former students, and the multiplier effects that occurred as former students and their employers spent money at other businesses.

## TOTAL IMPACT

The total impact of HC on the provincial economy during the analysis year amounted to \$228.4 million, equal to the sum of the operations spending impact, the applied research spending impact, the student spending impact, and the alumni impact. The added income is equal to approximately 4.5% of the province's gross provincial product. By comparison, this contribution that the college provides on its own is slightly larger than the entire Real Estate & Rental & Leasing industry in the province.

The total impact is also expressed in terms of the jobs supported by the added income; they are calculated by jobs-to-sales ratios specific to each industry. HC's impact supported 2,971 jobs in the Prince Edward Island economy. For perspective, this means that one out of every 26 jobs in Prince Edward Island is supported by the activities of HC and its students.

A portion of the total \$228.4 million is broken out into an industry-by-industry impact ordered by added income. Table 2 outlines the top industries impacted by HC. Because industries have different jobs-to-sales ratios, the associated jobs supported by HC differ by impact. Nonetheless, these are impacts that would not have been generated without the college's presence.

**TABLE 2:** Top industries impacted by HC

TOTAL INCOME (MILLIONS)	JOBS
<b>\$39.0</b>	<b>571</b>
<b>Health Care &amp; Social Assistance</b>	
<b>\$32.6</b>	<b>324</b>
<b>Public Administration</b>	
<b>\$17.0</b>	<b>131</b>
<b>Finance &amp; Insurance</b>	
<b>\$13.5</b>	<b>151</b>
<b>Manufacturing</b>	
<b>\$13.1</b>	<b>137</b>
<b>Professional, Scientific, &amp; Technical Services</b>	
<b>\$113.3</b>	<b>1,659</b>
<b>All other industries</b>	
<b>\$228.4</b>	<b>2,971</b>
<b>Total impact</b>	

# Investment analysis

Investment analysis is the process of evaluating total costs and measuring these against total benefits to determine whether or not a proposed venture will be profitable. If benefits outweigh costs, then the investment is worthwhile. If costs outweigh benefits, then the investment will lose money and is considered unprofitable. This study considers HC as an investment from the perspectives of students, society, and taxpayers. The backdrop for the analysis is the entire Prince Edward Island economy.

## STUDENT PERSPECTIVE

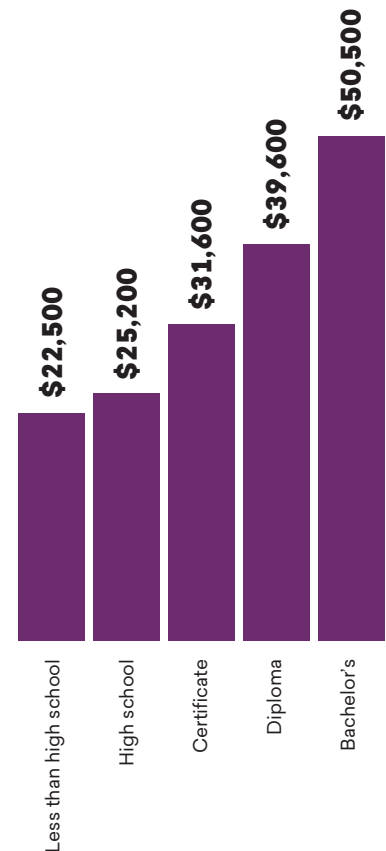
In FY 2016-17, HC served 3,569 credit students and 3,636 non-credit students. In order to attend school, students paid for tuition, fees, books, and supplies. They also gave up money that they would have otherwise earned had they been working instead of attending school. The total investment made by HC's students in FY 2016-17 amounted to \$70.2 million, equal to \$22.3 million in out-of-pocket expenses plus \$47.9 million in forgone time and money.

In return for their investment, HC's students develop the skills required for an increasingly globalised workplace and receive a stream of higher future wages that will continue to grow throughout their working lives. As shown in Figure 1, mean income levels at the midpoint of the average-aged worker's career increase as people achieve higher levels of education. For example, the average diploma graduate from HC will see increased earnings of \$14,400 per year at their career midpoint in Prince Edward Island compared to someone with a high school diploma or equivalent. Over a working lifetime, this increase in earnings amounts to an undiscounted value of approximately \$489,600 in higher earnings.

The present value of the higher future wages that HC's students will receive over their working careers is \$217.1 million. Dividing this value by the \$70.2 million in student costs yields a benefit-cost ratio of 3.1. In other words, for every \$1 students invest in HC in the form of out-of-pocket expenses and forgone time and money, they will receive a cumulative of \$3.10 in higher future wages. The return on investment to students (i.e., the benefit-cost ratio less the cost of the original investment) thus comes to \$2.10 in benefits returned over and above every \$1 in costs.

The average annual rate of return for students is 15.7%. This is a favourable return compared, for example, to the less than 1% return per annum that is generally expected from saving money in today's standard bank savings accounts.

**FIGURE 1:** Average earnings by education level at career midpoint in Prince Edward Island



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

## SOCIAL PERSPECTIVE

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

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

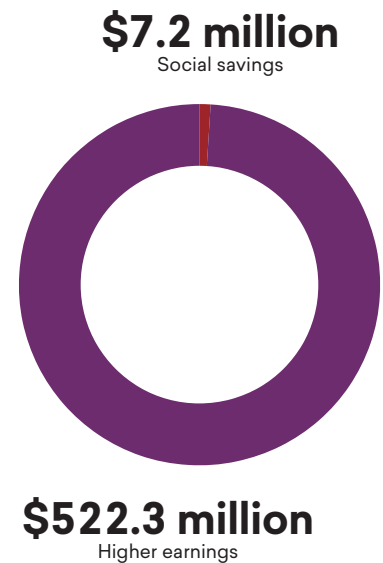
Figure 2 shows the present value of the added income and social savings that will occur in Prince Edward Island over the working lifetimes of HC's FY 2016-17 students. Added income amounts to a present value of \$522.3 million due to the increased lifetime incomes of students and associated increases in business output. Social savings amount to \$7.2 million, the sum of health, crime, and income assistance savings in Prince Edward Island. Altogether, total benefits to society equal \$529.5 million (in present value terms).

Society invested \$110.4 million in educations from HC during the analysis year. This includes all expenditures by HC, all student expenditures, and all student opportunity costs. For every \$1 of this investment, society as a whole in Prince Edward Island will receive a cumulative value of \$4.80 in benefits, equal to the \$529.5 million in benefits divided by the \$110.4 million in costs. These benefits will occur for as long as HC's FY 2016-17 students remain employed in the provincial workforce.

## TAXPAYER PERSPECTIVE

From the taxpayer perspective, benefits consist primarily of the taxes that provincial government will collect from the added income created in the province. As HC's FY 2016-17 students earn more, they will make higher tax payments. Employers will also make higher tax payments as they increase their output and purchase more supplies and services. By the end of the students' working careers, provincial government will have collected a present value of \$99 million in added taxes.

**FIGURE 2:** Present value of higher earnings and social savings in Prince Edward Island



A portion of the savings enjoyed by society also accrues to provincial taxpayers. Former students are more employable, so the demand for income assistance reduces. Improved health habits lower the former students' demand for provincial health care services. Former students are also less likely to commit crimes, so the demand for law enforcement services reduces. All of these benefits will generate a present value of \$2.9 million in savings to provincial taxpayers.

Total benefits to taxpayers are \$101.9 million, equal to the sum of the added taxes and public sector savings. Comparing this to the taxpayer costs of \$28.4 million—equal to the funding that HC received from provincial government during the analysis year—yields a benefit-cost ratio of 3.6. This means that for every \$1 of public money invested in HC, taxpayers receive a cumulative value of \$3.60 over the course of the former students' working lives. In other words, taxpayers fully recover the cost of the original investment and also receive a return of \$2.60 in addition to every \$1 they paid. The rate of return is 22.7%, a solid investment that compares favourably with other long-term investments in both the private and public sectors.

## SUMMARY OF INVESTMENT ANALYSIS RESULTS

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

**TABLE 3:** Summary of investment analysis results

	STUDENT PERSPECTIVE	SOCIAL PERSPECTIVE	TAXPAYER PERSPECTIVE
Present value benefits (thousands)	<b>\$217,063</b>	<b>\$529,468</b>	<b>\$101,915</b>
Present value costs (thousands)	<b>\$70,201</b>	<b>\$110,377</b>	<b>\$28,354</b>
<b>Net present value (thousands)</b>	<b>\$146,863</b>	<b>\$419,091</b>	<b>\$73,561</b>
Benefit-cost ratio	<b>3.1</b>	<b>4.8</b>	<b>3.6</b>
Return on investment	<b>2.1</b>	<b>3.8</b>	<b>2.6</b>
Rate of return	<b>15.7%</b>	<b>N/A*</b>	<b>22.7%</b>

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

# Conclusion

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

## ABOUT THE STUDY

Data and assumptions used in the study are based on several sources, including the FY 2016-17 academic and financial reports from HC, industry and employment data from Statistics Canada, outputs of Emsi's input-output model, and a variety of studies and surveys relating education to social behaviour. The study applies a conservative methodology and follows standard practice using only the most recognised indicators of investment effectiveness and economic impact. For a full description of the data and approach used in the study, please contact the college for a copy of the main report.



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