

**CUESTA COLLEGE**

**ECONOMIC IMPACT STUDY**

**A STUDY OF THE INCOME GENERATION,  
JOB CREATION, AND CREDIT BASE EXPANSION EFFECT  
OF CUESTA COLLEGE ON THE LOCAL COMMUNITY**

PREPARED BY

DR. WILLIAM E. PILAND

OFFICE OF RESEARCH AND SERVICE  
FOR POST-SECONDARY EDUCATION  
COLLEGE OF EDUCATION  
SAN DIEGO STATE UNIVERSITY  
SAN DIEGO, CALIFORNIA 92182

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Any substantive errors are the responsibility of the authors.

OFFICE OF RESEARCH AND SERVICES  
FOR POSTSECONDARY EDUCATION  
PROJECT STAFF

Dr. William E. Piland  
Professor Emeritus

## TABLE OF CONTENTS

<u>TOPIC</u>	<u>PAGE NO.</u>
Title Page.....	i
Acknowledgements.....	ii
Table of Contents.....	iii
INTRODUCTION.....	1
EXECUTIVE SUMMARY.....	4
Diagram 1. Economic Impact Flowchart.....	8
ECONOMIC IMPACT RESULTS.....	9
Income Generation.....	10
Job Creation.....	12
Credit Base Expansion.....	13
METHODOLOGY.....	14
The Income Multiplier.....	15
Job Creation Coefficient.....	16
Credit Base Expansion Multiplier.....	17

# INTRODUCTION

## INTRODUCTION

CUESTA COLLEGE has many significant, positive impacts on the community it serves. However, few people are aware of or familiar with the role of the College as a major business enterprise. In this role, the College serves as an employer, consumer of goods and services, investor, landowner, and builder.

Obviously, its programs of transfer, career, developmental, and continuing education provide excellent educational and training opportunities for district residents. In addition, CUESTA COLLEGE provides to the community innumerable cultural, public service, and social benefits such as drama productions, art exhibits, senior citizens programs, athletic events, and a variety of other special programs, seminars, workshops, and non-credit courses.

Most of these programs and activities are familiar to students, faculty, staff, and trustees associated with the College as well as to many citizens throughout the community. Judged by the support the College has received since its beginning, it is reasonable to assume that large numbers of citizens recognize that the quality of life in the area is greatly enhanced by the existence of the College and the services it offers.

As stated at the outset, CUESTA COLLEGE also makes a substantial contribution to the area's local economy. Examples are the earnings of its graduates, the increased knowledge and skills among members of the local work force, and the help it provides in attracting new business and industry which results in an increase in property values throughout the surrounding area. However, these economic benefits are not always easily quantifiable.

In addition to these nonquantifiable economic benefits, other substantial benefits result from the College's business activities. Jobs are created, money flows throughout the community creating income for citizens, and increased funds are available to area financial institutions for loans to community residents and businesses. These economic

impacts of CUESTA COLLEGE are quantifiable and their key elements can be estimated with reasonable accuracy. This report presents the results of an economic impact study which estimated the quantifiable economic impacts CUESTA COLLEGE has on its local community.

## **EXECUTIVE SUMMARY**

## EXECUTIVE SUMMARY

CUESTA COLLEGE provides many benefits to its constituents. The most visible are courses, workshops, entertainment, cultural events, and exhibits, in which people directly or indirectly participate. But the very presence of the College creates another seldom considered, but equally important benefit, its economic impact on the community. A college is, in fact, a business. It purchases materials, supplies, and services; is a major employer; and provides money for investment by its citizens.

This study, conducted by the Office of Research and Services For Post-Secondary Education at San Diego State University, identifies and quantifies three (3) of the major economic impacts resulting from the College's and its employees' business-related activities. While there are many other important economic benefits which could have been included in this study, the three (3) selected provide the greatest economic impact.

The Economic Impact Flowchart (Diagram 1) incorporated in this report shows the three (3) major economic benefits and the main factors contributing to each benefit. The first of these benefits, INCOME GENERATION, is comprised of purchases made by the College, the total employee payroll of the institution, and the financial aid monies received by students. However, these factors alone do not represent the total amount of income generated. This flow of money has a multiplier effect which creates further spending by businesses and individuals not directly associated with the College. Thus, the income generated, directly and indirectly, because of CUESTA COLLEGE's operations in 2004-05 amounted to **\$56,600,166**, a substantial contribution to the local economy.

The second major economic benefit is JOB CREATION. During 2004-05, the full-time equivalent number of faculty, staff, and administrative employees of the College

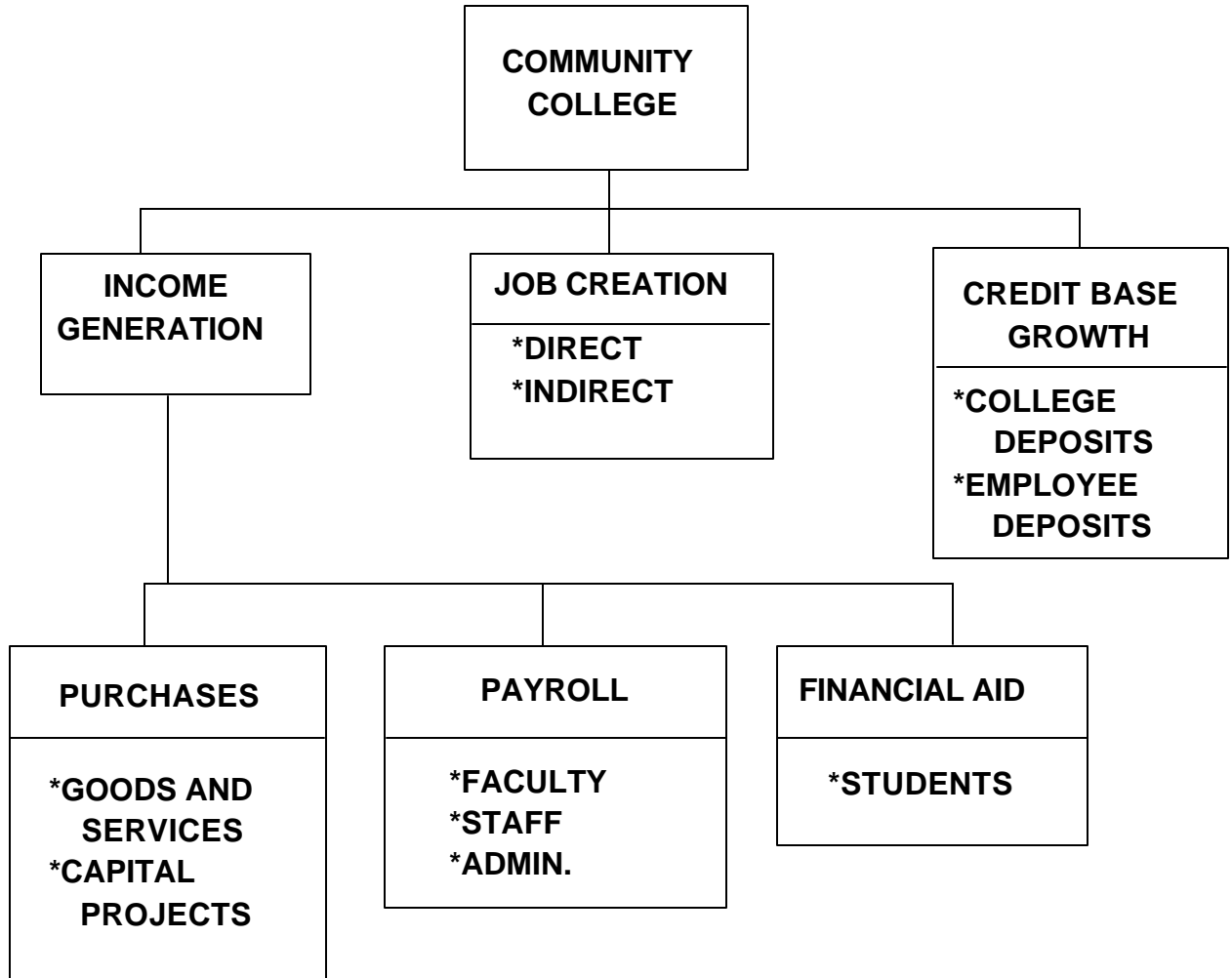
totaled 661. However, economic studies have shown that many additional jobs are created indirectly as a result of the financial transactions of a business and its employees. Using a conservative measure, it is estimated that because of the College an additional 2,641 jobs accrue to the community. Combining the direct employment of the College, 661 jobs, with the 2,641 indirect jobs resulting from the business generated by the College and its employees, results in the employment of over **3,302** people in the community in 2004-05.

The third major economic benefit results from the expansion of the AREA CREDIT BASE. Both the College and its employees establish checking and savings accounts with local financial institutions. Most of these deposits are then made available for loans to businesses and individuals throughout the community. It is estimated that during 2004-05, the College and its employees had an average of **\$3,994,141** deposited in area financial institutions, most of which is available for loans. These monies, as they flow through the community in the form of loans, serve as another stimulus to the local economy.

Although an institution of higher education generally is regarded as an asset to a community, the economic impact of a college is seldom recognized. The economic benefits described in this summary and detailed in the remainder of the Economic Impact Study reveal that CUESTA COLLEGE, in addition to providing educational services to its constituents, does indeed add substantially to the economic well-being of the community.

Diagram 1

**ECONOMIC IMPACT FLOWCHART**



## **ECONOMIC IMPACT RESULTS**

## ECONOMIC IMPACT RESULTS

### Income Generation

The estimated total income that was generated throughout the CUESTA COLLEGE service area during 2004-05 as a result of business related activities is derived from three major sources. These sources of income generation are 1) the direct expenditures made by the College for the purchase of goods and services, the construction of capital projects, and the expenditures by the College's Foundation; 2) the payroll of the faculty, staff, and administrators; and 3) the financial aid received by students.

The purchasing records of the College show that during 2004-05, \$2,693,765 was spent by the College within its local community. Since this study was limited to the economic impact of the College on its service area, the amount stated is an estimate of the amount of only the local purchases and not the total amount expended by the College.

The second major source of income generation is the total amount of compensation received by employees residing within the geographical boundaries of the College service area, which for 2004-05, was estimated to be \$26,882,866. This figure was calculated by multiplying the total "take-home pay" of all employees times the percentage of employees residing within the area. This is a conservative estimate since the pay received by employees residing outside the College service area was assumed to be spent entirely outside the area and thus to have no practical income generation effect within that jurisdiction.

A third source of money spent within the College relates to capital expenditures. The College spent \$3,744,690 on campus renovation and construction during the 2004-05 year. Additionally, the College Foundation expenditures of \$1,504,269 within the

college service area during that same year.

Finally, another major source of income generation impact by CUESTA COLLEGE on its community is student financial aid which, during 2004-05, amounted to \$2,907,853. This figure was obtained by first subtracting the amount of financial aid spent by the students on tuition and fees from the total amount of financial aid received by the students during 2004-05. This figure was then multiplied by the percentage of students residing within the geographical boundaries of the College service area. The final figure, then, represents the total estimated amount of financial aid receipts spent by CUESTA COLLEGE students within the community on items other than tuition and fees. Again, to be conservative, it was assumed that students who did not reside within the service area made all such expenditures outside the local community. Also, the amount of tuition and fees was subtracted from the total financial aid received by students to avoid double counting since tuition and fees would be received by the College and included as a part of the total revenues.

The sum of the expenditure components amounted to the following:

PURCHASES	\$2,693,765
NET PAYROLL (Within Service Area)	26,882,866
CAPITAL PROJECTS	3,744,690
AUXILIARY EXPENDITURES	1,504,269
FINANCIAL AID	<u>2,907,853</u>
TOTAL (WITHIN SERVICE AREA)	
INCOME GENERATION	<u>\$ 37,733,444</u>

However, the \$37,733,444 of income generation by the College creates further spending by local businesses and individuals not directly associated with the College. Studies indicate that for each new dollar of College spending additional local spending is produced (see Bibliography). Using a conservative multiplier of 1.5, the total income generation effect of College spending amounts to **\$56,600,166** for fiscal year 2004-05.

#### Job Creation

Another significant economic impact resulting from CUESTA COLLEGE's activities and programs is job creation. CUESTA COLLEGE, both directly and indirectly provides jobs for community residents. During 2004-05, the College had the equivalent of 661 full-time employees. In addition to the full- and part-time jobs for faculty, staff, and administrators, many other jobs exist throughout the community as a result of the College's business activities. Based on a conservative job-creation coefficient of 70 jobs for each \$1 million of expenditures, an additional 2,641 jobs were indirectly created. Thus, the total job-creation impact of CUESTA COLLEGE was estimated to be the 661 direct jobs plus the 2,641 indirect jobs, or a total of **3,302** jobs for community residents.

#### Credit Base Expansion

Financial institutions throughout the CUESTA COLLEGE service area benefit

from the checking and savings deposits, and the investments made by the College and its employees. These funds add to the credit base of these institutions and enable them to engage in lending activities. Likewise, borrowers benefit from the increased availability of funds for business and consumer loans. For 2004-05, CUESTA COLLEGE had an average of \$2,381,169 in deposits and investments with area financial institutions.

In addition, of the \$26,882,866 of take-home income earned by College employees living within the area, it is estimated that approximately 6 percent or \$1,612,972 was added to the credit base of area financial institutions. The factor of six percent is the national average savings/investment rate from personal income as reported in the 2005 edition of the Statistical Abstract of the United States. This total expansion of the local community credit base attributable to the College and its employees amounts to \$2,381,169 plus \$1,612,972 or **\$3,994,141**.

## **METHODOLOGY**

## METHODOLOGY

The objective of this study was to estimate the economic impact of CUESTA COLLEGE on the economy of its community in terms of income generation, job creation, and credit base growth effects of the College in its functions as a business entity. In calculating the estimates of income generated and jobs created, an income multiplier and a job-creation coefficient were used which were based on previous studies of the economic impact of colleges and universities. A conservative value for each was used so that the resulting estimates of the economic impact of the College would, if anything, tend to be understated.

In developing the model for this study, there were three primary design parameters which guided the process:

1. The model was to utilize fiscal-year data that could be readily derived or estimated from existing college records and documents without the use of time-consuming surveys of the faculty, staff, or students.
2. Applicable multipliers used in making calculations were to be identified and drawn from previous studies done by generally accepted authorities on the economic impact of educational institutions.
3. The model itself was to be relatively simple to use and the outcomes from its application were to be easily understood.

### The Income Multiplier

The concept of an income multiplier has been a generally accepted part of macroeconomic theory for more than seventy-five years. It is based on the fact that a dollar spent by an individual or a business firm for goods or services becomes a dollar of income to some other individual or business firm who sold the goods or services. This second individual or business firm will then spend at least a portion of the dollar received which in turn will provide income to a third individual or business firm. This

"chain of expenditures" will continue through several cycles so that the income-generation effect of the original dollar spent is multiplied by some factor. For example, the expenditure of one dollar at the beginning of a given year might have the impact of generating three dollars of income by the end of that year in a particular community, as a result of the "ripple effect" of the initial expenditure. The income multiplier for that community would then have a value of three. As incomes are spent and respent the total income for a community is generated.

Previous studies of the economic impact of community colleges and universities upon their local communities have used income multipliers ranging from 1.45 to 2.35. (These studies appear in the Bibliography attached to this report.) The multiplier for a given area depends on its geographic size and its level of self-sufficiency. The smaller the size of an area and the more dependent its population is on goods and services from an outside area, the smaller will be the income multiplier. For the purpose of this study a conservative multiplier of 1.5 was chosen.

#### Job-Creation Coefficient

In addition to the jobs provided directly by CUESTA COLLEGE through the employment of faculty, staff, and administrators the expenditures made by the College, its employees, and students result in the creation of a substantial number of other jobs throughout the College service area. Studies by John Caffrey and Herbert Issacs (see Bibliography) suggest that a range from 70 to 90 jobs per \$1 million of college-related expenditures are indirectly created. For the purposes of this study a conservative coefficient of 70 jobs per \$1 million of expenditures was chosen.

#### Credit Base Expansion Multiplier

Financial institutions require deposits in order to produce income and profits by

loaning money to businesses and individuals. Some of the deposits must be kept on "reserve" but most is made available to the local community. The credit base expansion resulting from deposits in financial institutions was calculated by combining the average savings/investments of the College and six percent of the employee compensation. The six percent multiplier is the national average savings/investment rate from personal income as reported in the Statistical Abstracts of the United States. While this multiplier may vary by locale, any deviation would not significantly affect the results of this study because the multiplier is a relatively small number.