Social & Taxpayer Perspectives

State taxpayers earn a 8.9% rate of return on their investment in Valencia College.

Valencia College adds more money to the state treasury than it takes out. Not only does the college pull its own weight, but it also effectively subsidizes other sectors funded by the taxpayers. Absent Valencia, 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: social and taxpayer.

Social Perspective

The social perspective adds up all benefits attributable to Valencia, 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 social perspective counts all benefits, not just those that accrue back to state government.

Benefits generated by Valencia 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 government, or the taxpayers. A social perspective benefit/cost ratio greater than 1.0 is a minimal indicator of a worthwhile public investment.

Counting benefits and costs in this way, Valencia's benefit/cost ratio is 25.1. In other words, the cumulative added value attached to each dollar invested will have a present value of $25.10 by the end of the students' working career.

Taxpayer Perspective

The taxpayer investment perspective counts only benefits that can be entered into the books of state government. For example, educated workers earn more and thus pay more taxes. Furthermore, because state 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 government receives returns from their support of Valencia in the form of increased tax revenue and savings associated with avoided social costs.

Worthwhile public projects often generate negative taxpayer 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 taxpayer perspective, returns are negative, though the park is justified by the benefits tracked under the social perspective.

But unlike most government endeavors, funding for Valencia generates strong results from both the social and taxpayer perspectives. Economists generally assume a 3% discount rate in analyzing government investments, assuming that governments can obtain unsecured loans at a rate of 3% or receive a 3% return on any excess funds, if they were invested. Since Valencia's taxpayer rate of return of 8.9% is greater than 3%, state government actually makes money on the investment. By funding the college, therefore, other recipients of state funding are actually subsidized through the revenues generated by the college.

Comparison of Valencia's Rate of Return to Discount Rate and Average Return on Stocks and Bonds