



The Economic Value of Algoma University
to Sault Ste. Marie

MAIN REPORT

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Executive Summary

This report assesses the impact of Algoma University (AU) on the regional economy and the benefits generated by the University for its main stakeholder groups: students, taxpayers, and society. The results of this study show that AU has a significant positive impact on the business community in the regional economy and generates benefits in return for the investments made by students, taxpayers, and society.

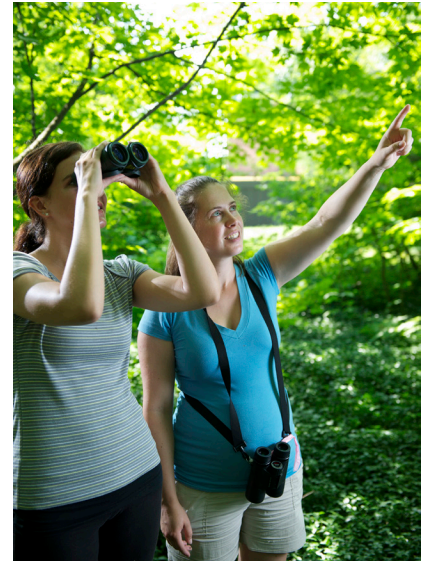




Economic Impact Analysis

During the analysis year, AU spent \$17.1 million on payroll and benefits for 196 full-time equivalent (FTE) employees, and spent another \$12.8 million on goods and services to carry out its day-to-day and research operations. This initial round of spending creates more spending across other businesses throughout the regional economy, resulting in the commonly referred to multiplier effects. This analysis estimates the net economic impact of AU, directly taking into account the fact that local dollars spent on AU could have been spent elsewhere in the region if not directed towards AU 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 AU.

This analysis shows that in fiscal year (FY) 2017-18, AU's operations, research, visitor, and student spending, together with the enhanced productivity of its alumni, generated **\$80.2 million** in added income for the Sault Ste. Marie economy. The additional income of **\$80.2 million** is approximately equal to **2.7%** of the region's gross regional product (GRP). For perspective, this impact from the University is larger than the entire Accommodation & Food Services industry in the region. The impact of **\$80.2 million** is equivalent to supporting **1,106 jobs**. For further perspective, this means that **one out of every 33 jobs** in Sault Ste. Marie is supported by the activities of AU and its students. These economic impacts break down as follows:



One out of every 33 jobs in Sault Ste. Marie is supported by the activities of AU and its students.

Operations spending impact



Payroll and benefits to support AU's day-to-day operations (not including research activities) amounted to \$16.7 million. The University's non-pay expenditures (excluding research expenditures) amounted to \$12.5 million. The net impact of AU's payroll and expenses toward day-to-day operations in Sault Ste. Marie was approximately **\$20.9 million** in added income in FY 2017-18. This is equivalent to supporting **270 jobs**.

Research spending impact



AU's research activities impact the regional economy by employing people and making purchases for equipment, supplies, and services. The University also facilitates new knowledge creation throughout Sault Ste. Marie. AU's research spending generated **\$563.4 thousand** in added

regional income for the Sault Ste. Marie economy in FY 2017-18. This is equivalent to supporting **seven jobs**.

Visitor spending impact



Out-of-region visitors attracted to Sault Ste. Marie for activities at AU brought new dollars to the economy through their spending at hotels, restaurants, gas stations, and other regional businesses.

The spending from these visitors added approximately **\$344.3 thousand** in added income for the Sault Ste. Marie economy, which is equivalent to supporting **11 jobs**.

Student spending impact



Around 33% of students, including international students, originated from outside Sault Ste. Marie, and many of these students relocated to the region to attend AU. In addition, some students are residents

of Sault Ste. Marie who would have left the region if not for the existence of AU. The money that these relocated and retained students spent at local businesses toward living expenses is attributable to AU. These expenditures added approximately **\$1.6 million** in income to the Sault Ste. Marie economy in FY 2017-18. This is equivalent to supporting **36 jobs**. Of this impact, **\$1.1 million** is attributable to international students who relocated to Sault Ste. Marie to attend AU.

Alumni impact



Approximately 52% of students who attend AU stay in Sault Ste. Marie after leaving or graduating from the University. Their enhanced skills and abilities bolster the output of local employers, leading to

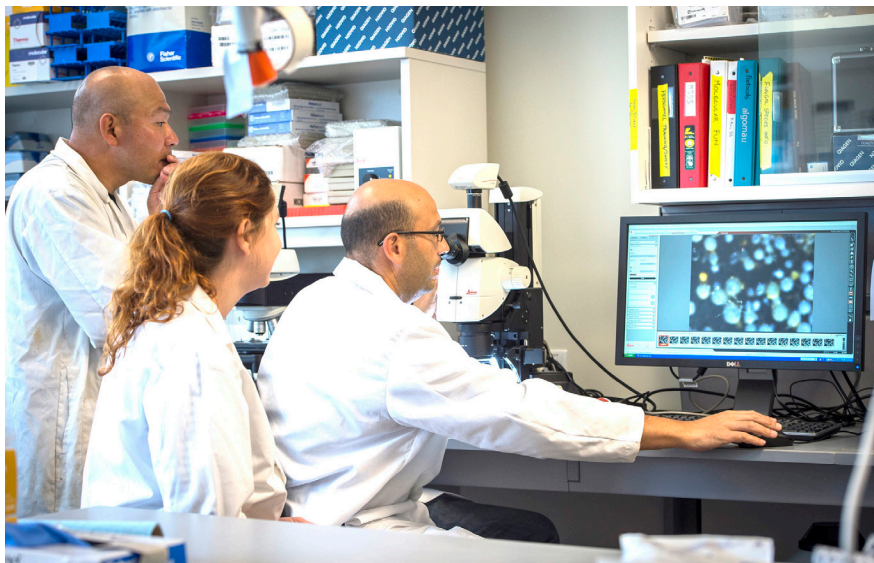
higher regional income and a more robust economy. The accumulated contribution of former students of AU who were employed in the regional workforce in FY 2017-18 amounted to **\$56.8 million** in added income in the Sault Ste. Marie economy. This is equivalent to supporting **782 jobs**. Of this impact, **\$4.9 million** is attributable to former international students who are active in the regional workforce.

Important Note

When reviewing the impacts estimated in this study, it's important to note that it reports impacts in the form of added income rather than sales. Sales includes all of 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 regional product (GRP) and value added. For this reason, it is a more meaningful measure of new economic activity than sales.



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 AU as an investment from the perspectives of students, taxpayers, and society.

Student perspective



Students paid a total of **\$9 million** to cover the cost of tuition and fees and books and supplies at AU in FY 2017-18. They also forewent **\$21.8 million** in earnings that they would have generated had they been working instead of learning.

In return for the monies invested in AU, students receive a present value of **\$65.9 million** in increased earnings over their working lives. This translates to a return of **\$2.10** in higher future earnings for every dollar that students pay for their education at AU. The corresponding average annual internal rate of return is **13.8%**.

Taxpayer perspective



Provincial taxpayers in Ontario paid **\$16.8 million** to support the operations of AU in FY 2017-18. The net present value of the added tax revenue stemming from the students' higher lifetime earnings and the increased output of businesses amounts to **\$33 million** in benefits to taxpayers. Savings to the public sector add another **\$504.5 thousand** in benefits due to a reduced demand for government-funded social services in Ontario.

Dividing the benefits to provincial taxpayers by the amount that they paid to support AU yields a **2.0** benefit-cost ratio, i.e., every dollar in costs returns **\$2.00** in benefits. In other words, taxpayers fully recover the cost of the original investment and receive an additional **\$1.00** for every dollar they paid. The average annual internal rate of return for taxpayers is **9.4%**.

Social perspective



Society in the province of Ontario will receive a present value of **\$207.3 million** in added provincial income over the course of the students' working lives. Society will also benefit from **\$1.3 million** in present value social savings related to reduced crime, lower unemployment, and increased health and well-being across the province.

For every dollar that society spent on educations at AU in FY 2017-18, society as a whole will receive a cumulative value of **\$3.90** in benefits, for as long as AU's FY 2017-18 student population remains active in the provincial workforce.

*Taxpayers **fully recover the cost of the original investment** and receive an additional dollar for every dollar they paid.*



Introduction

Algoma University (AU) creates value in many ways. The University plays a key role in helping students increase their employability and achieve their individual potential. With a wide range of program offerings, AU enables students to earn credentials and develop the skills they need to have fulfilling and prosperous careers. The University also provides an excellent environment for students to meet new people and make friends, while participation in courses improves students' self-confidence and promotes their mental health. These social and employment-related benefits have a positive influence on the health and well-being of individuals.

However, the contribution of AU consists of more than solely influencing the lives of students. The University's program offerings support a range of industry sectors in Sault Ste. Marie. The University also supplies employers with the skilled workers they need to make their businesses more productive. Operational expenditures of AU, along with the spending of its employees and students, further support the regional economy through the output and employment generated by regional businesses. Lastly, and just as importantly, the economic impact of AU extends as far as the provincial treasury in terms of increased tax receipts and decreased public sector costs.

This report assesses the economic impact of AU on the regional economy and the benefits generated by the University in return for the investments made by its key stakeholder groups: students, taxpayers, and society. Our approach is twofold. We begin with an economic impact analysis of AU on the regional business community in Sault Ste. Marie. To derive results, we rely on Emsi's Canadian Regional Input-Output (CRIO) model to calculate the additional income created in the Sault Ste. Marie economy as a result of institution-linked input purchases, consumer spending, and the added skills of AU students. Results of the regional economic impact analysis are broken out by the following five impacts: 1) impact of the University's day-to-day operations, 2) impact of research spending, 3) impact of visitor spending, 4) impact of student spending, and 5) impact of alumni who are still employed in the Sault Ste. Marie workforce.

The second component of the study is a standard investment analysis to determine how money spent on AU performs as an investment over time. The investors in this case are students, taxpayers, and society, all of whom pay a



The University plays a key role in helping students increase their employability and achieve their individual potential.

certain amount in costs to support the educational activities at AU. The students' investment consists of their out-of-pocket expenses and the opportunity cost of attending the University as opposed to working. Provincial taxpayers contribute their investment through government funding. Society invests in education by forgoing the services that it would have received had government not funded AU and the business output that it would have enjoyed had students been employed instead of studying.

In return for these investments, students receive a lifetime of higher earnings, taxpayers benefit from an expanded tax base and a collection of public sector savings, and society benefits from an enlarged economy and a reduced demand for social services. To determine the feasibility of the investment, the model projects benefits into the future, discounts them back to their present value, and compares them to their present value costs. Results of the investment analysis for students, taxpayers, and society are displayed in the following four ways: 1) net present value of benefits, 2) rate of return, 3) benefit-cost ratio, and 4) payback period.

A wide array of data and assumptions are used in the study based on several sources, including the fiscal year (FY) 2017-18 academic and financial reports from the University, industry and employment data from Statistics Canada, outputs of Emsi's CRIO model, and a variety of published materials relating education to social behaviour. The study aims to apply a conservative methodology and follows standard practice using only the most recognized indicators of investment effectiveness and economic impact.

CHAPTER 1:

Profile of AU and the Regional Economy



ALGOMA University (AU) is an undergraduate-only university that provides a variety of scientific, liberal arts, and professional educational options to the residents of Sault Ste. Marie and the surrounding region of northern Ontario. AU offers a transformative education through a student-centered approach to teaching and learning.

AU was established in 1965 as Algoma College. For its first four decades, the University operated as an affiliated college of Sudbury's Laurentian University, before being granted its own charter in 2008, becoming Ontario's 19th university. Since 1971, AU has based its operations in a historic building, the former Shingwauk Residential School, built in 1935. In recent years, the University has added a number of new facilities to expand its potential, and has also opened specialized campuses in the cities of Brampton and Timmins, which offer business administration and computer science programs, and programs in social work and community development, respectively.

In total, AU offers its students approximately 30 different undergraduate programs, including not only bachelor's degrees but also certificates. By focusing on undergraduate courses, AU gives students the chance to participate in faculty research, expanding the possibilities of their coursework. Overall, AU's small size and pedagogical approach are intended to foster a real-world orientation, whether students choose social work, visual arts, business administration, or any of the University's other programs.

Beyond its traditional role as an educational institution, AU has undertaken a special mission of prioritizing cross-cultural learning between Indigenous communities and other parts of northern Ontario society. As part of this mission, it has a vision to support healing and reconciliation for those impacted by Canada's Residential School period, and providing an especially inclusive environment for Anishinaabe students while integrating Anishinaabe perspectives into the University's entire approach. The University also offers unique degree programs in Anishinaabe studies, Anishinaabemowin language, and Ojibwe language and culture.



*AU offers a **transformative education** through a student-centered approach to teaching and learning.*



Employee and finance data

Estimating the economic value of AU requires three types of information: 1) employee and finance data, 2) student demographic and achievement data, and 3) the economic profile of the region. For this study, information on the University and its students was obtained from AU, and data on the regional economy were drawn from Emsi’s proprietary data modeling tools, Statistics Canada, and the Sault Ste. Marie Economic Development Corporation.

Employee data

Data provided by AU include information on the University’s employees by place of work and by place of residence. These data appear in Table 1.1. As shown, 196 full-time equivalent employees worked at AU in FY 2017-18. Of these, 92% worked in Sault Ste. Marie and 91% lived in the region. These data are used to isolate the portion of the employees’ household expenses that remains in the regional economy.

Revenues

Figure 1.1 shows AU’s annual revenues by funding source—a total of \$31.8 million in FY 2017-18. As indicated, tuition and mandatory fees comprised 29% of total revenue, revenue from provincial grants and contracts 47%, revenue from federal grants and contracts 4%, and all other non-government revenue (i.e., sales, donations, and non-government grants and contracts) the remaining 20%.

These data are critical in identifying annual costs of educating the University’s students from the perspectives of students and taxpayers.

Expenditures

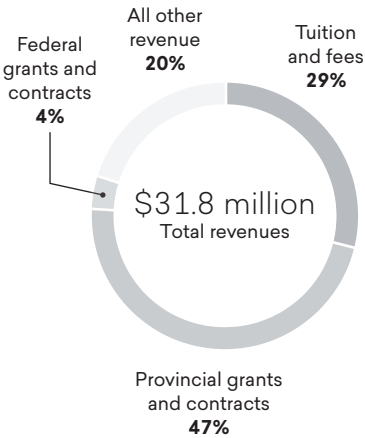
Figure 1.2 displays AU’s expense data for FY 2017-18. AU’s combined payroll amounted to \$17.1 million, equal to 54% of the University’s total expenses. Other expenditures, including amortization, operation & maintenance of plant, and purchases of supplies and services, made up \$14.7 million. When we calculate the impact of these expenditures in Chapter 2, we exclude expenses for amortization, as they represent a devaluing of the University’s assets rather than an outflow of expenditures. We also only include expenditures for AU’s Sault Ste. Marie campus; in Chapter 2, we remove payroll and expenditures for the Brampton and Timmins campuses, as those expenses occurred outside of the region and are considered in a separate analysis.

TABLE 1.1: EMPLOYEE DATA, FY 2017-18

Total full-time equivalent employees	196
% of employees that work in region	92%
% of employees that live in region	91%

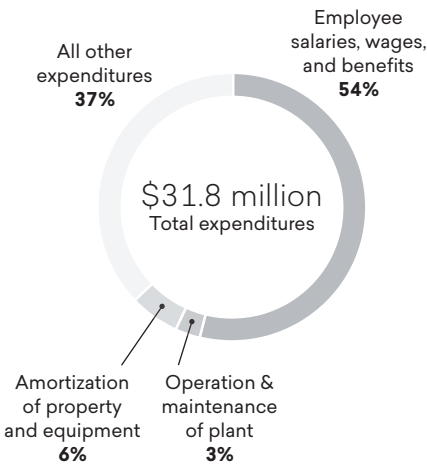
Source: Data provided by AU.

FIGURE 1.1: AU REVENUES BY SOURCE, FY 2017-18



Source: Data provided by AU.

FIGURE 1.2: AU EXPENSES BY FUNCTION, FY 2017-18



Source: Data provided by AU.



Student profile data

AU served 1,362 students in FY 2017-18. The breakdown of the student body by gender was 45% male and 55% female. The students' overall average age was 26 years old.¹ An estimated 52% of students remain in Sault Ste. Marie after finishing their time at AU, another 9% remain in Ontario but outside the region, and the remaining 39% settle outside the province.²

Table 1.2 summarizes the breakdown of the student population by credential type and the corresponding number of full-time equivalents (FTEs). FTEs are used to standardize actual course loads against normal course loads to combine full-time and part-time student counts. FTE data combined with the number of credentials issued are key to determining how far students advance in their education during the analysis year and the associated value of their achievements.

As shown, AU served 1,126 bachelor's degree students in FY 2017-18. Another 147 students pursued certificates in an early cohort of certificate programs that had not yet graduated in FY 2017-18. Students not allocated to the other categories comprised the remaining 89 students.



TABLE 1.2: BREAKDOWN OF STUDENT POPULATION BY CREDENTIAL TYPE, FY 2017-18

Category	Headcount	FTEs	Average FTEs per student	Number of Credentials Issued
Bachelor's degree	1,126	1,016	0.90	290
Certificate	147	183	1.24	0
All other students	89	3	0.03	0
Total, all students	1,362	1,202	0.88	290

Source: Data provided by AU. Estimate of FTEs for "All Other" students provided by Emsi.

Altogether, AU served 1,362 students and issued 290 bachelor's degrees during the analysis year. The total FTE production for the student population was 1,202 FTEs, for an overall average of 0.88 FTEs per student.

1 Unduplicated headcount, gender, and age data provided by AU.

2 Settlement data provided by AU.

Profile of the Sault Ste. Marie economy

Since AU was first established, it has been serving Sault Ste. Marie by providing local residents with easy access to post-secondary education, preparing students for a variety of professions, and enhancing the workforce. Table 1.3 summarizes the breakdown of the Sault Ste. Marie economy by major industrial sector, with details on labour income, non-labour income, and total income, also referred to as gross regional product (GRP). Labour income includes the wages and salaries of employees (excluding self-proprietors), and non-labour

TABLE 1.3: INCOME BY MAJOR INDUSTRIAL SECTOR IN SAULT STE. MARIE, 2017

Industry sector	Labour income (millions)	Non-labour income (millions)	Total income (millions)	% of Total	Sales (millions)
Manufacturing	\$224	\$310	\$534	18%	\$4,014
Health Care & Social Assistance	\$282	\$185	\$467	16%	\$653
Public Administration	\$180	\$189	\$369	12%	\$758
Construction	\$105	\$144	\$249	8%	\$607
Educational Services	\$128	\$70	\$198	7%	\$240
Retail Trade	\$114	\$71	\$186	6%	\$302
Transportation & Warehousing	\$57	\$81	\$139	5%	\$277
Real Estate & Rental & Leasing	\$19	\$89	\$108	4%	\$176
Administrative & Support, Waste Management, & Remediation Services	\$64	\$44	\$107	4%	\$207
Professional, Scientific, & Technical Services	\$54	\$51	\$104	3%	\$173
Utilities	\$26	\$67	\$94	3%	\$125
Finance & Insurance	\$34	\$52	\$86	3%	\$163
Other Services (except Public Administration)	\$46	\$33	\$79	3%	\$144
Wholesale Trade	\$35	\$40	\$75	3%	\$119
Accommodation & Food Services	\$47	\$26	\$73	2%	\$185
Arts, Entertainment, & Recreation	\$38	\$26	\$64	2%	\$148
Information & Cultural Industries	\$12	\$19	\$30	1%	\$56
Mining, Quarrying, & Oil and Gas Extraction	\$6	\$14	\$20	<1%	\$32
Agriculture, Forestry, Fishing, & Hunting	\$4	\$7	\$11	<1%	\$29
Management of Companies & Enterprises	\$2	\$1	\$2	<1%	\$5
Total	\$1,476	\$1,520	\$2,995	100%	\$8,414

* 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 CRIO model.

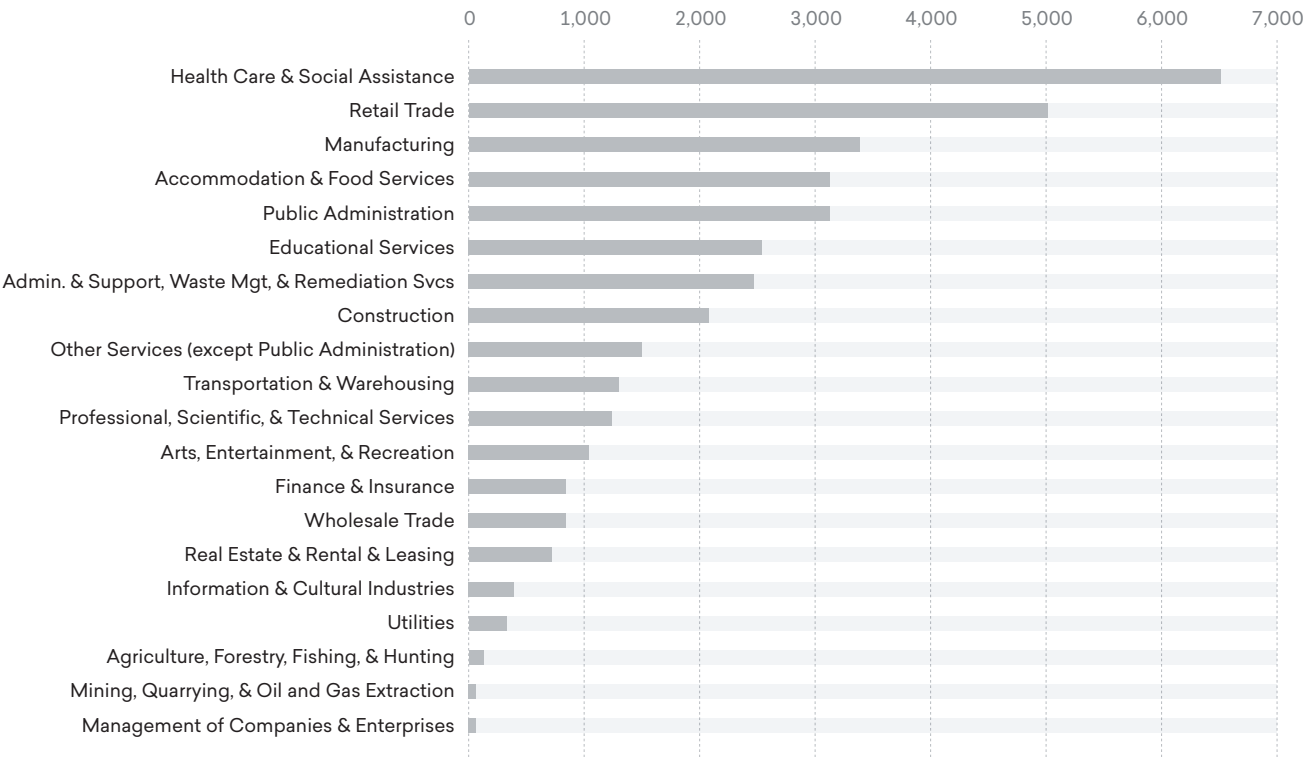


income includes operating surplus, mixed income, and taxes less subsidies on production, products and imports. Together labour income and non-labour income make up the region’s total GRP.

As shown in Table 1.3, total GRP in Sault Ste. Marie is approximately \$3 billion, equal to the sum of labour income (\$1.5 billion) and non-labour income (\$1.5 billion). In Chapter 2, we use GRP as the backdrop against which we measure the relative impacts of the University on economic growth in the region.

Figure 1.3 provides the breakdown of jobs by industry sector in Sault Ste. Marie. The Health Care & Social Assistance industry is the region’s largest employer, supporting 6,500 jobs or 17.7% of total employment. The second largest employer is the Retail Trade industry, supporting 5,029 jobs or 13.7% of total employment. Altogether, the region supports 36,644 jobs.³

FIGURE 1.3: JOBS BY MAJOR INDUSTRY SECTOR IN SAULT STE. MARIE, 2017*



* Data reflect the most recent year for which data are available.
Source: Emsi employment data.

3 Job numbers reflect both wage and salary employees and self-employed workers.

Table 1.4 and Figure 1.4 present the median earnings by education level in Sault Ste. Marie and the province, which represent the earnings at students' career midpoint. These numbers are derived from data provided by Statistics Canada and grown to reflect current year dollars. They are then weighted by the University's demographic profile, regionalized using a scalar derived from average earnings per worker in Sault Ste. Marie, and weighted by AU's student settlement patterns.

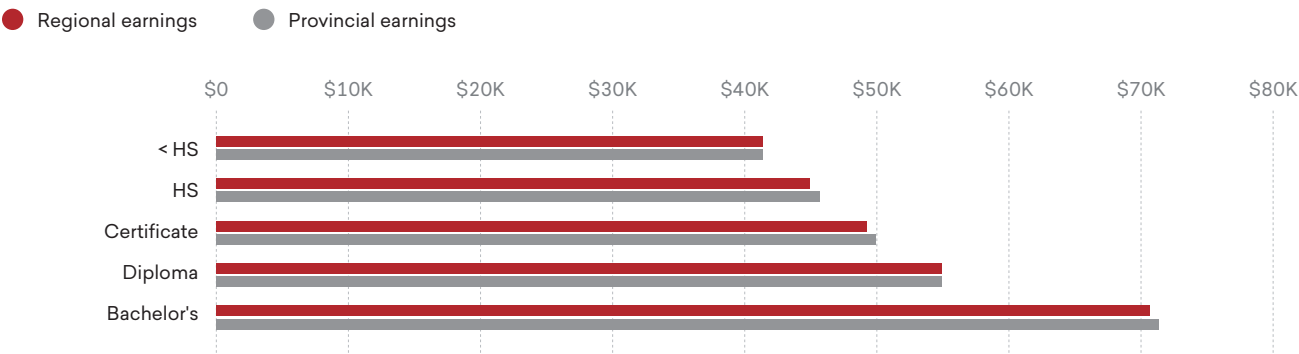
As shown, students who earn a bachelor's degree can expect \$70,700 in earnings per year in Sault Ste. Marie, approximately \$25,600 more than someone with a high school diploma.

TABLE 1.4: MEDIAN EARNINGS BY EDUCATION LEVEL FOR AU STUDENTS AT CAREER MIDPOINT

Education level	Regional earnings	Difference from next lowest credential	Provincial earnings	Difference from next lowest credential
Less than high school	\$41,100	n/a	\$41,300	n/a
High school or equivalent	\$45,100	\$4,000	\$45,400	\$4,100
Certificate	\$49,400	\$4,300	\$49,700	\$4,300
Diploma	\$54,700	\$5,300	\$55,000	\$5,300
Bachelor's degree	\$70,700	\$16,000	\$71,200	\$16,200

Source: Derived from data provided by Statistics Canada and the Emsi CRIO model.

FIGURE 1.4: MEDIAN EARNINGS BY EDUCATION LEVEL FOR AU STUDENTS AT CAREER MIDPOINT



Source: Derived from data provided by Statistics Canada and the Emsi CRIO model.

CHAPTER 2:

Economic Impact Analysis

The Sault Ste. Marie economy is impacted by AU in a variety of ways. The University is an employer and a buyer of goods and services. It attracts monies that would not have otherwise entered the regional economy through its day-to-day and research operations, as well as through the expenditures of its visitors and students. Further, the University provides students with the knowledge, skills, and abilities they need to become productive citizens and contribute to the overall output of the region.



In this chapter, we estimate the following economic impacts of AU: 1) the operations spending impact, 2) the research spending impact, 3) the visitor spending impact, 4) the student spending impact, and 5) the alumni impact, measuring the income added in the region as former students expand the regional economy's stock of human capital.

When exploring each of these economic impacts, we consider the following hypothetical question:

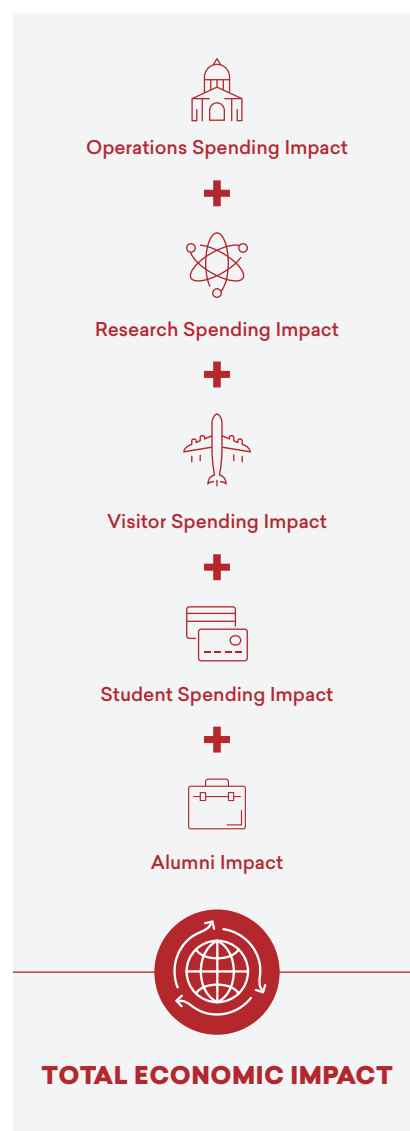
How would economic activity change in Sault Ste. Marie if AU and all its alumni did not exist in FY 2017-18?

Each of the economic impacts should be interpreted according to this hypothetical question. Another way to think about the question is to realize that we measure net impacts, not gross impacts. Gross impacts represent an upper-bound estimate in terms of capturing all activity stemming from the University; however, net impacts reflect a truer measure since they demonstrate what would not have existed in the regional economy if not for the University.

Economic impact analyses use different types of impacts to estimate the 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 **income impact**, which assesses the change in gross regional product, or GRP. Income may be further broken out into the **labour income impact**, which assesses the change in employee compensation; and the **non-labour income impact**, which assesses the change in income business profits. Another way to state the income impact is **jobs**, a measure of the number of full- and part-time jobs that would be required to support the change in income. All of these measures – added labour and non-labour income, total income, jobs, and sales – are used to estimate the economic impact results presented in this chapter.

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:

- 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.
- 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



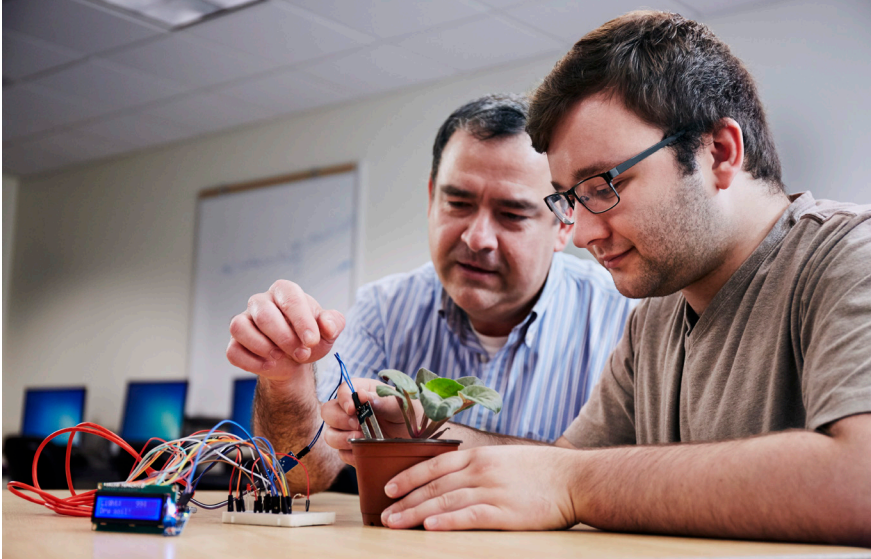
the economy and may be further decomposed into the following three types of effects:

- 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.

Calculating multiplier effects requires the use of Emsi's Canadian Regional Input-Output (CRIO) model that captures the interconnection of industries, government, and households in the region. The Emsi CRIO model contains 303 industry sectors from the North American Industry Classification System (NAICS) and supplies the industry-specific multipliers required to determine the impacts associated with economic activity within the region. For more information on the Emsi CRIO model and its data sources, see Appendix 5.



Operations spending impact



Payroll for faculty and staff is part of the region's total earnings, and the spending of employees for groceries, apparel, and other household expenditures helps support regional businesses. The University itself purchases supplies and services, and many of its vendors are located in Sault Ste. Marie. These expenditures create a ripple effect that generates more jobs and higher wages throughout the economy.

Table 2.1 presents the University's total estimated expenditures (not including research) for the following three categories: 1) salaries, wages, and benefits, 2) operation and maintenance of plant, and 3) all other expenditures (including purchases for supplies and services). In this analysis, we exclude expenses for amortization due to the way those measures are calculated in the national input-output accounts, and because amortization represents the devaluing of the University's assets rather than an outflow of expenditures.

The first step in estimating the multiplier effect of the University's expenditures is to map them individually to the 303 industry sectors of the Emsi CRIO model. Assuming that the spending patterns of University personnel approximately match those of the average consumer, we map University salaries and benefits to spending on industry outputs using national household expenditure coefficients provided by Emsi's national CRIO model. Approximately 92% of AU's employees work in Sault Ste. Marie, so we consider 92% of the salaries, wages, and benefits. For the other two expenditure categories (*i.e.*, operation and maintenance of plant and all other expenditures), we remove the portion

allocated to AU's campuses in Timmins and Brampton (estimated to be 3% of AU's total expenditures). We then assume that the University's spending patterns approximately match national averages and apply the national spending coefficients for the Educational Services (Universities) industry sector (NAICS 6113). Operation and maintenance of plant expenditures are mapped to the industries that relate to capital construction, maintenance, and support, while the University's remaining expenditures to the remaining industries.

TABLE 2.1: AU OPERATIONAL EXPENSES BY FUNCTION (EXCLUDING AMORTIZATION), FY 2017-18*

Expense category	In-region expenditures (thousands)	Out-of-region expenditures (thousands)	Total expenditures (thousands)
Employee salaries, wages, and benefits	\$15,380	\$1,356	\$16,736
Operation and maintenance of plant	\$636	\$430	\$1,066
All other expenditures	\$4,630	\$6,769	\$11,400
Total	\$20,647	\$8,555	\$29,202

* This table does not include expenditures for research, as they are presented separately in the following section.
Source: Data provided by AU and the Emsi impact model.

We now have three vectors detailing the spending of AU: one for salaries, wages, and benefits; another for operation and maintenance of plant; and a third for AU's purchases of supplies and services. The next step is to estimate the portion of these expenditures that occur inside the region. The expenditures occurring outside the region are known as leakages. We estimate in-region expenditures using regional purchase coefficients (RPCs), a measure of the overall demand for the commodities produced by each sector that is satisfied by regional suppliers, for each of the approximately 303 sectors in the CRIO model. For example, if 40% of the demand for NAICS 5241 ("Insurance carriers") is satisfied by regional suppliers, the RPC for that sector is 40%. The remaining 60% of the demand for NAICS 5241 is provided by suppliers located outside the region. The three university spending vectors are multiplied, sector by sector, by the corresponding RPC to arrive at the in-region spending associated with the University. Finally, in-region spending is entered, industry by industry, into the CRIO model's multiplier matrix, which in turn provides an estimate of the associated multiplier effects on regional labour income, non-labour income, total income, sales, and jobs.

Table 2.2 presents the economic impact of AU's operations spending. The people employed by AU and their salaries, wages, and benefits comprise the initial effect, shown in the top row of the table in terms of labour income, non-labour income, total added income, sales, and jobs. The additional impacts created by the initial effect appear in the next four rows under the section labelled *multiplier effect*. Altogether, AU's spending creates \$3.5 million in

labour income and another \$3.4 million in non-labour income through multiplier effects—a total of \$6.9 million. This together with the \$15.4 million in initial effects generates a gross total of \$22.3 million in impacts associated with the spending of AU and its employees in the region.

TABLE 2.2: OPERATIONS SPENDING IMPACT, FY 2017-18

	Labour income (thousands)	Non-labour income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$15,380	\$0	\$15,380	\$29,202	177
Multiplier effect					
Direct effect	\$1,283	\$1,233	\$2,517	\$5,267	40
Indirect effect	\$199	\$210	\$409	\$828	6
Induced effect	\$2,029	\$1,952	\$3,981	\$7,261	73
Total multiplier effect	\$3,512	\$3,395	\$6,907	\$13,356	120
Gross impact (initial + multiplier)	\$18,892	\$3,395	\$22,287	\$42,558	297
Less alternative uses of funds	-\$721	-\$694	-\$1,416	-\$2,576	-27
Net impact	\$18,171	\$2,701	\$20,872	\$39,982	270

Source: Emsi impact model.

The \$22.3 million in gross impact is often reported by researchers as the total impact. We go a step further to arrive at a net impact by considering a counterfactual scenario, i.e., what would have happened if a given event – in this case, the expenditure of in-region funds on AU – had not occurred. AU received an estimated 19.4% of its funding from sources in Sault Ste. Marie. These monies came from students living in the region, from private sources, and from the local share of provincial taxes.⁴ We must account for the opportunity cost of this in-region funding. Had other industries received these monies rather than AU, income effects 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.

For AU, we calculate counterfactual outcomes by simulating a scenario where in-region monies spent on the University are instead spent on goods or are saved by consumers. This simulates the in-region monies being returned to the taxpayers and being spent by the household sector. We establish the total amount spent by in-region students and taxpayers on AU, map this to the detailed industries of the CRIO model using national household expenditure

*The operations spending impact totals to **\$20.9 million**, representing the added income created in the regional economy as a result of AU operations.*

4 Local taxpayers pay provincial taxes, and it is thereby fair to assume that a portion of the provincial funds received by AU comes from local sources. The portion of provincial taxes paid by local taxpayers is estimated by applying the ratio of regional earnings to total earnings in the province.

coefficients, use the industry RPCs to estimate in-region spending, and run the in-region spending through the CRIO model's multiplier matrix to derive multiplier effects. The effects of this exercise are shown as negative values in the row labelled *less alternative uses of funds* in Table 2.2.

The net total income impact of AU's operations spending is equal to the gross impact less the impact of the alternative use of funds – the opportunity cost of the regional money. As shown in the last row of Table 2.2, the net impact is approximately \$18.2 million in labour income and \$2.7 million in non-labour income. This sums to \$20.9 million in total added income and is equivalent to supporting 270 jobs. These impacts represent the new economic activity created in the regional economy as a result of AU operations.





Research spending impact

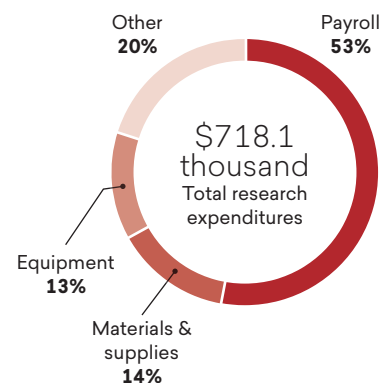


Similar to AU's day-to-day operations, research activities impact the economy by employing people and requiring the purchase of equipment and other supplies and services. Figure 2.1 shows AU's research expenses by function – payroll, materials and supplies, equipment, and other – for FY 2017-18, totaling \$718.1 thousand. These expenses would not have been possible without funding from outside the region – AU received around 64% of its research funding from federal sources.

To estimate the research spending impact, we employ a methodology similar to the one used to estimate the impacts of operational expenses. We begin by mapping research expenses by function to the relevant industries of the CRIO model, removing the spending that occurs outside the region, and then running the in-region expenses through the multiplier matrix. As with the operations spending impact, we also adjust the gross impacts to account for the opportunity cost of monies withdrawn from the regional economy to support the research of AU, whether through regional-sponsored research awards or through private donations. Again, we refer to this adjustment as the alternative use of funds.

Initial, direct, indirect, and induced effects of AU's research expenses appear in Table 2.3. The University's research expenses have a total gross impact of \$474.1 thousand in labour income and \$93.9 thousand in non-labour income. This totals \$568 thousand in total added income. Taking into account the effect of the alternative uses of funds, net research expenditure impacts of

FIGURE 2.1: RESEARCH EXPENDITURES BY FUNCTION, FY 2017-18



Source: Data provided by AU.

AU are \$471.7 thousand in labour income and \$91.7 thousand in non-labour income, totaling \$563.4 thousand in total added income. This is equivalent to supporting seven jobs.

TABLE 2.3: RESEARCH SPENDING IMPACT, FY 2017-18

	Labour income (thousands)	Non-labour income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$380	\$0	\$380	\$718	4
Multiplier effect					
Direct effect	\$36	\$37	\$73	\$158	1
Indirect effect	\$6	\$7	\$13	\$28	<1
Induced effect	\$52	\$50	\$102	\$186	2
Total multiplier effect	\$94	\$94	\$188	\$372	3
Gross impact (initial + multiplier)	\$474	\$94	\$568	\$1,090	7
Less alternative uses of funds	-\$2	-\$2	-\$5	-\$8	<1
Net impact	\$472	\$92	\$563	\$1,081	7

Source: Emsi impact model.

AU's research activities create an economic impact beyond spending. There are impacts created through the entrepreneurial and innovative activities stemming from AU's research. Communication advances, improved Indigenization, and awareness of socioeconomic phenomena are developments that all have immense value in the regional economy. However, the full scope of these factors is difficult to quantify. Some of this impact may be captured in the alumni impact presented later in this chapter. The broader spillover effects, however, remain as additional value created beyond this analysis.





Visitor spending impact

Thousands of out-of-region visitors come to AU to participate in various activities, including commencement, cultural activities, sports events, and orientation. AU estimates that 12,182 visitors attended events it hosted in FY 2017-18. In this analysis, we only consider the impact of out-of-region visitors, as visitors to AU from Sault Ste. Marie do not bring new expenditures to the regional economy. Of the 12,182 total visitors in FY 2017-18, AU estimates that 4,000 were from outside of the region. It is estimated that out-of-region visitors stayed in Sault Ste. Marie for two days and one night on average.

Table 2.4 presents the average expenditures per person-trip for accommodation, food, transportation, and other personal expenses (including shopping and entertainment). Based on these figures, the gross spending of out-of-region visitors totaled \$1 million in FY 2017-18. However, some of this spending includes monies paid to the University (e.g., event tickets, food, etc.). These have already been accounted for in the operations spending impact and should thus be removed to avoid double-counting. Using data provided by AU, we estimate that on-campus sales generated by out-of-region visitors totaled \$50 thousand. The net sales from out-of-region visitors in FY 2017-18 thus come to \$950 thousand.



TABLE 2.4: AVERAGE PER-TRIP VISITOR COSTS AND SALES GENERATED BY OUT-OF-REGION VISITORS IN SAULT STE. MARIE, FY 2017-18*

Accommodation	\$75
Food	\$100
Entertainment and shopping	\$50
Transportation	\$25
Total expenses per visitor	\$250
Number of out-of-region visitors	4,000
Gross sales	\$1,000,000
On-campus sales (excluding textbooks)	\$50,000
Net off-campus sales	\$950,000

* Costs have been adjusted to account for the length of stay of out-of-region visitors. Accommodation and transportation have been adjusted downward to recognize that, on average, two visitors share lodging and transport. Source: Sales calculations estimated by Emsi based on data provided by AU.

Calculating the increase in income as a result of visitor spending again requires use of the CRIO model. The analysis begins by discounting the off-campus sales generated by out-of-region visitors to account for leakage in the trade sector, and then bridging the net figures to the detailed sectors of the CRIO model. The model runs the net sales figures through the multiplier matrix to arrive at the multiplier effects. As shown in Table 2.5, the net impact of visitor spending in FY 2017-18 comes to \$201.5 thousand in labour income and \$142.7 thousand in non-labour income. This totals to \$344.3 thousand in added income and is equivalent to supporting 11 jobs.

TABLE 2.5: VISITOR SPENDING IMPACT, FY 2017-18

	Labour income (thousands)	Non-labour income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$0	\$0	\$0	\$950	0
Multiplier effect					
Direct effect	\$152	\$108	\$259	\$541	9
Indirect effect	\$22	\$16	\$38	\$77	1
Induced effect	\$27	\$20	\$47	\$93	2
Total multiplier effect	\$202	\$143	\$344	\$711	11
Total impact (initial + multiplier)	\$202	\$143	\$344	\$1,661	11

Source: Emsi impact model.





Student spending impact



Both in-region and out-of-region students, domestic and international, contribute to the student spending impact of AU; however, not all of these students can be counted towards the impact. First, the out-of-region students who relocated to Sault Ste. Marie to attend AU are measured. Students who commute from outside the region or take courses online are not counted towards the student spending impact because they are not adding money from living expenses to the region. Of the in-region students, only those students who were retained, or who would have left the region to seek education elsewhere had AU not existed, are measured. Students who would have stayed in the region anyway are not counted towards the impact since their monies would have been added to the Sault Ste. Marie economy regardless of AU.

An estimated 272 students originated from either outside the region or outside Canada and lived off campus while attending AU in FY 2017-18. These students spent money at regional businesses to purchase groceries, rent accommodation, pay for transportation, and so on. Another estimated 14 out-of-region students lived on campus while attending the University. While these students pay housing fees and purchase meal plans, we exclude these expenses since they are already reflected in the impact of the University's operations.

Although there were 908 students attending AU who originated from Sault Ste. Marie, not all of them would have remained in the region if not for the existence of the University. We apply a conservative assumption that 10% of these in-region students would have left Sault Ste. Marie for other education

opportunities if AU did not exist.⁵ Therefore, we recognize that the in-region spending of 91 students is attributable to AU. Of the retained students, we estimate 19 lived on campus while attending AU. We also exclude the room and board expenditures for students living on campus. Collectively, the off-campus expenditures of AU's relocated and retained students supported regional jobs and created new income in the regional economy.⁶

The average living expenses of students in Sault Ste. Marie appear in the first section of Table 2.6. Note that this table excludes expenses for books and supplies, since many of these monies are already reflected in the operations spending impact discussed in the previous section. We multiply the annual costs by the number of students who either relocated to the region or were retained in the region because of AU and lived in-region but off campus. For relocated and retained students living on campus (34 students), we only use costs for personal expenses and transportation. Altogether, off-campus spending of relocated and retained students generated gross sales of \$4.1 million. This figure, once net of the monies paid to student workers, yields net off-campus sales of \$3.9 million, as shown in the bottom row of Table 2.6.

TABLE 2.6: AVERAGE ANNUAL STUDENT COSTS AND TOTAL SALES GENERATED BY AU'S RELOCATED AND RETAINED STUDENTS IN SAULT STE. MARIE, FY 2017-18

Room and board, off campus	\$15,164
Personal expenses	\$2,500
Transportation	\$184
Number of students who relocated to region	286
Number of students retained in region	91
Gross sales generated by students who relocated	\$3,194,927
Gross sales generated by retained students	\$882,215
Total gross off-campus sales	\$4,077,142
Wages and salaries paid to student workers*	\$128,759
Net off-campus sales	\$3,948,383

* This figure reflects only the portion of payroll that was used to cover the living expenses of relocated and retained student workers who lived in the region.

Source: Data on the number of students who relocate provided by AU. Data on living expenses provided by AU and derived using Canada Mortgage and Housing Corporation and Statistics Canada data, and a report by Roslyn Kunin and Associates.

5 See Appendix 1 for a sensitivity analysis of the retained student variable.

6 Online students, students at satellite campuses, and students who commuted to Sault Ste. Marie from outside the region are not considered in this calculation because it is assumed their living expenses predominantly occurred in the region where they resided during the analysis year. We recognize that not all online students live outside the region, but keep the assumption given data limitations.



Estimating the impacts generated by the \$3.9 million in student spending follows a procedure similar to that of the operations impact described above. We begin by mapping the \$3.9 million in sales to the industry sectors in the CRIO model, apply RPCs to reflect regional spending only, and run the net sales figures through the CRIO model to derive multiplier effects. Finally, we convert the results to income through the application of income-to-sales ratios.

Table 2.7 presents the results. The initial income effect is \$0 because the impact of relocated and retained students only occurs when they spend part of their earnings to make a purchase at a regional business. The income impact of relocated and retained student spending thus falls entirely under the multiplier effect, equal to a total of \$1.6 million in added regional income. This value represents the direct added income created at the businesses patronized by the students, the indirect added income created by the supply chain of those businesses, and the increased spending of the household sector throughout the regional economy as a result of the direct and indirect effects. This is equivalent to supporting 36 jobs.

*The total impact of student spending is **\$1.6 million** in added income and is equivalent to supporting **36 jobs**.*

International student spending impact

In FY 2017-18, 258 international students relocated to Sault Ste. Marie to attend AU. These students spent money at local businesses to purchase groceries, rent accommodation, pay for transportation, and so on. Using the average living expenses from Table 2.6 and adjusting for on-campus housing and monies paid to international student workers yields net sales of approximately \$2.8 million.

Similar to the student spending impact, we map the \$2.8 million in sales to the industry sectors in the CRIO model, apply RPCs to reflect regional spending only, and run the net sales figures through the CRIO model to derive multiplier effects. The total impact of international student spending comes to \$1.1 million in added income, which is included in the AU student spending impact above. The international student spending impact of \$1.1 million is equivalent to supporting 25 jobs.

TABLE 2.7: STUDENT SPENDING IMPACT, FY 2017-18

	Labour income (thousands)	Non-labour income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$0	\$0	\$0	\$3,948	0
Multiplier effect					
Direct effect	\$520	\$623	\$1,143	\$2,068	27
Indirect effect	\$79	\$120	\$199	\$347	4
Induced effect	\$97	\$125	\$223	\$389	5
Total multiplier effect	\$696	\$869	\$1,565	\$2,804	36
Total impact (initial + multiplier)	\$696	\$869	\$1,565	\$6,753	36

Source: Emsi impact model.





Alumni impact



AU's greatest economic impact stems from the education, skills training, and career enhancement that it provides. Since it was established, the University has provided skills training to students who have subsequently entered or re-entered the regional workforce. As these skills accumulated, the stock of human capital in Sault Ste. Marie expanded, boosting the competitiveness of existing industries, attracting new industries, and generally enlarging overall output. The sum of all these several and varied effects, measured in terms of added regional income, constitutes the total impact of current and past AU student productivity on the Sault Ste. Marie economy.

The alumni impact differs from the operations, research, visitor, and student spending impacts in one fundamental way. Whereas the above listed impacts depend on an annually-renewed injection of new sales into the regional economy, the alumni impact is the result of years of past instruction and the associated workforce accumulation of AU skills. Should AU cease to exist, all impacts except the alumni impact would also immediately cease to exist. The impact of the University's former students would continue, as long as those students remained active in the workforce. Over time, though, students would leave the workforce, and the expanded economic output that they provided through their increased productivity would leave with them.

AU's greatest economic impact
*stems from the education, skills
training, and career enhancement
that it provides.*

The initial effect of alumni comprises two main components. The first and largest of these is the added labour income (*i.e.*, wages and salaries) of former AU students. Higher wages occur as the increased productivity of workers leads to greater business output. The reward to increased productivity does not stop there, however. Skilled workers make capital goods (*e.g.*, buildings, production facilities, equipment, *etc.*) more productive too, thereby increasing the return on capital in the form of higher profits. The second component of the initial effect thus comprises the other (*i.e.*, non-earnings) income generated by the businesses that employ former AU students.

The first step in estimating the initial effect of alumni is to determine the added labour income that accrues to students. We begin by assembling the record of AU's historical student headcounts (both credit and non-credit) over the past 30 years,⁷ from 1988-89 to 2017-18. From this vector of historical enrollments, we remove the number of students who are not currently active in the regional workforce, whether because they are still enrolled in education, or because they're unemployed, employed but working in a different region, or out of the workforce completely due to retirement or death. We estimate the historical employment patterns of students in the region using the following sets of data or assumptions: 1) a set of settling-in factors to determine how long it takes the average student to settle into a career;⁸ 2) death, retirement, and unemployment rates from Statistics Canada; and 3) regional migration data, also from Statistics Canada. The result of these computations is an estimate of the portion of students who were still actively employed in the region in FY 2017-18.

The next step is to transition from the number of students who were still employed in the region to the number of skills they acquired from AU. The students' course load, measured in terms of full-time equivalents (FTEs), serves as a reasonable proxy for accumulated skills. Table 1.2 in Chapter 1 provides the number of FTEs generated by the AU student population in FY 2017-18, equal to 1,202 FTEs. This value we convert to credits by multiplying FTEs by a factor of 30, the assumed number of credits per FTE.⁹ The converted FTEs thus yield 36,059 credits for the year.

The 36,059 credits only represent the total credit production for the FY 2017-18 student population, however. What we need is an estimate of the AU's historical

7 We apply a 30-year time horizon because the data on students who attended AU prior to FY 1988-89 is less reliable, and because most of the students served more than 30 years ago had left the regional workforce by FY 2017-18.

8 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 credential, and between one and five years for continuing students. Workforce and professional development students are usually already employed while attending university, so they experience no delay in the onset of their benefits.

9 Converting FTEs to credits in this fashion allows us to break down the students' progression into a larger number of smaller increments. Institutions may have different methods for determining credit assignments; however, a general guideline is that since one week of full-time study earns one credit, and since there are 30 weeks in a typical academic year, then one FTE earns 30 credits.

credit production. To derive this, we determine the average number of credits per student during the analysis year – equal to 26.5 credits – and multiply this by the number of former AU students still active in the workforce during the analysis year. The product – 281,621 credits – appears in the top row of Table 2.8.

TABLE 2.8: NUMBER OF AU CREDITS STILL ACTIVE IN WORKFORCE AND INITIAL LABOUR INCOME CREATED IN REGION, FY 2017-18

Number of credits in workforce	281,621
Average value per credit	\$173
Initial labour income, gross	\$48,860,839
Percent reduction for alternative education opportunities	15%
Percent reduction for adjustment for substitution	50%
Initial labour income, net	\$20,765,857

Source: Emsi impact model.

The next row in Table 2.8 shows the average value per credit, equal to \$173. This value represents the average increase in wages that former AU students received during the analysis year for every credit generated at the University. The value per credit varies depending on the students' age, with the highest value applied to the credit production of students who had been employed the longest by FY 2017-18, and the lowest value per credit applied to students who were just entering the workforce. More information on the theory and calculations behind the value per credit appears in Appendix 6. In determining the amount of added labour income that accrues to former students, we multiply the credit production of AU's former students in each year of the historical time horizon by the corresponding average value per credit for that year, then sum the products together. This calculation yields approximately \$48.9 million in gross higher wages received by former students in FY 2017-18 (as shown in Table 2.8).

The next two rows in the table show two adjustments that we make to account for counterfactual outcomes. As discussed above, counterfactual outcomes in economic analysis represent what would have happened if a given event had not happened. The event in this case is the training provided by AU and subsequent influx of skilled labour into the regional economy. The first counterfactual scenario that we address is the adjustment for alternative education opportunities. Our assumption is that, if a portion of the students could have received training even if AU and the other publicly-funded institutions in the region did not exist, the higher wages that accrue to those students cannot be counted as added labour income in the region. The adjustment for alternative education opportunities amounts to a 15% reduction of the \$48.9 million in added labour income, meaning that 15% of the added labour income would have

been generated in the region anyway, even if AU did not exist. For more information on the calculation of the alternative education variable, see Appendix 7.

The other adjustment in Table 2.8 accounts for the substitution of workers. Suppose AU did not exist and in consequence there were fewer skilled workers in the region. Businesses could still satisfy some of their need for skilled labour by recruiting from outside Sault Ste. Marie. We refer to this phenomenon as the out-of-region worker substitution effect. Lacking exact information on its possible magnitude, we set the value of out-of-region worker substitution at 50%. In other words, of the jobs that students fill at local businesses, we assume 50% of them could have been filled by workers recruited from outside the region if AU did not exist.¹⁰ With the 50% adjustment, the net added labour income in the economy comes to \$20.8 million, as shown in Table 2.8.

The \$20.8 million in added labour income appears under the initial effect in the “Labour income” column of Table 2.9. Estimating the industry-specific effects on non-labour income in the region – and the related multiplier effects – requires information on the specific industries where past students settle. To estimate this, we allocate the initial increase in labour income (\$20.8 million) to the four-digit NAICS industry sectors where students are most likely to be employed. This allocation entails a process that maps completers in the region to the detailed occupations for which those completers have been trained, and then maps the detailed occupations to the 303 industry sectors in the CRIO model.¹¹

Once students are distributed across the industry sectors, we multiply our estimate of the students’ initial labour income effect (\$20.8 million) by the ratio of non-labour income to labour income provided by the CRIO model for each sector. This computation yields an estimated \$19.6 million in non-labour

TABLE 2.9: ALUMNI IMPACT, FY 2017-18

	Labour income (thousands)	Non-labour income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Initial effect	\$20,766	\$19,557	\$40,323	\$74,894	558
Multiplier effect					
Direct effect	\$3,171	\$3,380	\$6,552	\$12,963	83
Indirect effect	\$552	\$602	\$1,154	\$2,231	15
Induced effect	\$4,567	\$4,247	\$8,814	\$14,995	125
Total multiplier effect	\$8,290	\$8,230	\$16,520	\$30,188	223
Total impact (initial + multiplier)	\$29,056	\$27,787	\$56,843	\$105,082	782

Source: Emsi CRIO model.

¹⁰ For a sensitivity analysis of the substitution variable, see Appendix 1.

¹¹ Completer data comes from the Postsecondary Student Information System (PSIS), which organizes program completions according to the Classification of Instructional Programs (CIP).

income attributable to the former AU students. Summing initial labour income and non-labour income together provides the total initial effect of alumni in the Sault Ste. Marie economy, equal to approximately \$40.3 million.

The next few rows of Table 2.9 show the multiplier effects of alumni. Multiplier effects occur as students generate an increased demand for consumer goods and services through the expenditure of their higher wages. Further, as the industries where AU students 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 former AU students.

To estimate multiplier effects, we convert the industry-specific income figures generated through the initial effect to regional sales using sales-to-income ratios from the CRIO model. We then run the values through the CRIO model's multiplier matrix to determine the corresponding increases in industry output that occur in the region. Finally, we convert all increases in regional sales back to income using the income-to-sales ratios provided by the CRIO model. The results are \$8.3 million in labour income and \$8.2 million in non-labour income, for an overall total of \$16.5 million in multiplier effects. The total impact of alumni comes to \$56.8 million, the sum of all initial and multiplier effects. This is equivalent to supporting 782 jobs. The total figures appear in the last row of Table 2.9.

International student alumni impact

International students are an important part of the AU community. The university strives to embrace diversity, and international and Canadian students learn from one another, creating a unique and intercultural experience. AU has steadily increased its international enrolment, serving 426 international students from over 30 countries in FY 2017-18. The majority of these students relocated to Sault Ste. Marie, while others enrolled at AU's campus in Brampton.

Approximately 23% of international students remain in Sault Ste. Marie after finishing their time at AU. Today, many of these students are employed in the region, receiving higher earnings and increasing the productivity of the businesses that employ them. In FY 2017-18, these active alumni generated \$4.9 million in added income for the regional economy, which is equivalent to supporting 67 jobs. This impact is included in AU's total alumni impact in Table 2.9.





Total AU impact

The total impact of AU on Sault Ste. Marie can be generalized into two broad types of impacts. First, on an annual basis, AU generates a flow of spending that has a significant impact on the Sault Ste. Marie economy. The impacts of this spending are captured by the operations, research, visitor, and student spending impacts. While not insignificant, these impacts do not capture the true purpose of AU. The basic mission of AU is to foster human capital. Every year, a new cohort of AU former students adds to the stock of human capital in Sault Ste. Marie, and a portion of alumni continues to add to the Sault Ste. Marie economy.

Table 2.10 displays the grand total of AU's impact on Sault Ste. Marie in FY 2017-18. For context, the percentages of AU's impact compared to the total labour income, total non-labour income, combined total income, sales, and jobs in Sault Ste. Marie, as presented in Table 1.3 and Figure 1.3, are included. The total impact of AU is **\$80.2 million**, equivalent to **2.7%** of the GRP of Sault Ste. Marie. By comparison, this contribution that the University provides on its own is larger than the entire Accommodation & Food Services industry in Sault Ste. Marie. AU's total impact supported **1,106 jobs** in Sault Ste. Marie in FY 2017-18. For perspective, this means that **one out of every 33 jobs** in Sault Ste. Marie is supported by the activities of AU and its students.

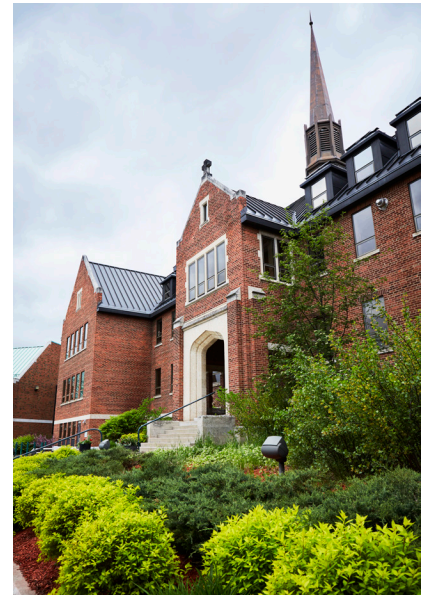


TABLE 2.10: TOTAL AU IMPACT, FY 2017-18

	Labour income (thousands)	Non-labour income (thousands)	Total income (thousands)	Sales (thousands)	Jobs supported
Operations spending	\$18,171	\$2,701	\$20,872	\$39,982	270
Research spending	\$472	\$92	\$563	\$1,081	7
Visitor spending	\$202	\$143	\$344	\$1,661	11
Student spending	\$696	\$869	\$1,565	\$6,753	36
Alumni	\$29,056	\$27,787	\$56,843	\$105,082	782
Total impact	\$48,596	\$31,591	\$80,187	\$154,560	1,106
% of Sault Ste. Marie economy	3.3%	2.1%	2.7%	1.8%	3.0%

Source: Emsi CRIO model.

These impacts, stemming from spending related to the University and its students, spread throughout the regional economy and affect individual industry sectors. Table 2.11 displays the total impact of AU on industry sectors based on their two-digit NAICS code. The table shows the total impact of operations, research, visitors, students, and alumni, as shown in Table 2.10, broken down by industry sector using processes outlined earlier in this chapter. By showing the impact on individual industry sectors, it is possible to see in finer detail where AU has the greatest impact. For example, AU's impact for the Health Care & Social Assistance industry sector was \$14.9 million in FY 2017-18. Some of this impact comes from AU's employees and students spending money in this industry subsector. However, the vast majority of the impact on this industry is from the alumni impact, demonstrating how AU's alumni who graduated from programs like social work and community & social development impact the local economy.

TABLE 2.11: TOTAL AU IMPACT BY INDUSTRY, FY 2017-18

Industry sector	Total income (thousands)	Jobs supported
Educational Services	\$18,398	220
Health Care & Social Assistance	\$14,919	233
Public Administration	\$13,662	111
Professional, Scientific, & Technical Services	\$5,487	65
Retail Trade	\$4,828	150
Real Estate & Rental & Leasing	\$4,409	23
Finance & Insurance	\$3,729	37
Other Services (except Public Administration)	\$2,574	51
Administrative & Support, Waste Management, & Remediation Services	\$2,112	49
Arts, Entertainment, & Recreation	\$1,538	31
Manufacturing	\$1,418	11
Transportation & Warehousing	\$1,415	20
Accommodation & Food Services	\$1,379	59
Information & Cultural Industries	\$1,229	20
Construction	\$1,002	9
Wholesale Trade	\$921	10
Utilities	\$903	3
Management of Companies & Enterprises	\$120	2
Agriculture, Forestry, Fishing, & Hunting	\$87	1
Mining, Quarrying, & Oil and Gas Extraction	\$58	<1
Total impact	\$80,187	1,106

Source: Emsi impact model.



CHAPTER 3:

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 thus considered infeasible. In this chapter, we consider AU as an investment from the perspectives of students, taxpayers, and society.

Because students will reap the benefits of their AU education no matter where they reside, their benefits are not limited to a specific region, although earnings are weighted by regional and provincial levels based on students' settlement patterns. The backdrop for the investment analysis for taxpayers and society is the entire province.





Student perspective

Analyzing the benefits and costs of education from the perspective of students is the most obvious form of investment analysis this study considers. Generally, students enter post-secondary institutions because their goal is to improve their career pathway and therefore lifetime earning potential. They realize this is their future payoff for giving up time and money to go to the institutions today. The cost component of the analysis thus comprises the monies students pay (in the form of tuition and fees and forgone time and money), and the benefit component focuses on the extent to which the students' earnings increase as a result of their education.

Calculating student costs

Student costs consist of two main items: direct outlays and opportunity costs. Direct outlays include tuition and fees. Removing non-repayable student aid, net tuition is estimated to be \$7.5 million. Direct outlays also include the cost of books and supplies. On average, full-time students spent \$1,200 each on books and supplies during the reporting year.¹² Multiplying this figure by the number of full-time equivalents (FTEs) produced by AU in FY 2017-18 (see Table 1.2) generates a total cost of \$1.4 million for books and supplies.

Opportunity cost is the most difficult component of student costs to estimate. It measures the value of time and earnings forgone by students who go to the University 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 University.

We derive the students' full earning potential by weighting the average annual earnings in Table 1.4 according to the education level breakdown of the student population at the start of the analysis year.¹³ The earnings in Table 1.4 reflect the midpoint of the average worker's career, however, not his or her earnings while attending the University. Because of this, we adjust the earnings to the average age of the student population (26) to better reflect their earnings at their current age.¹⁴ This calculation yields an average full earning potential of \$35,908 per student.

¹² See Roslyn Kunin and Associates, "Economic Impact of International Education in Canada - An Update," Report presented to the Department of Foreign Affairs and International Trade, revised May 2012.

¹³ This is based on the students who reported their prior level of education to AU.

¹⁴ We use the lifecycle earnings function identified by Jacob Mincer to scale the earnings levels to the students' current age. See Jacob Mincer, "Investment in Human Capital and Personal Income Distribution," *Journal of Political Economy* 66, no. 4 (August 1958): 281-302. Further discussion on the Mincer function and its role in calculating the students' return on investment appears later in this chapter and in Appendix 5.



STUDENT COSTS



Out-of-Pocket Expenses



Opportunity Costs

STUDENT BENEFITS



Higher Earnings from Education

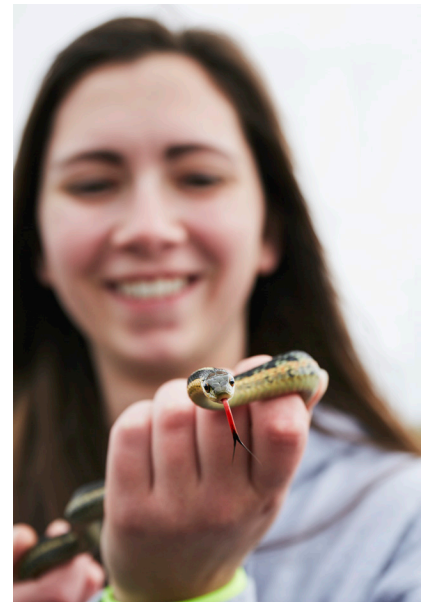


In determining what students earn while attending the University, an important factor to consider is the time that they spend at the University, since this is the only time that they are required to give up a portion of their earnings. We use the students' FTE production as a proxy for time, under the assumption that the more FTEs students earn, the less time they have to work, and consequently, the greater their forgone earnings. Overall, AU students earned an average of 0.88 FTEs per student, which is equal to 88% of a full academic year.

Another factor to consider is the students' employment status while attending the University. We estimate that 50% of AU students are employed.¹⁵ For the 50% who are not working, we assume that they are either seeking work or planning to seek work once they complete their educational goals. By choosing to go to the University, therefore, non-working students give up everything that they can potentially earn during the academic year. While non-working students are able to work over the summer, the temporary nature of these jobs restricts earning potential as well; these jobs pay, on average, 69% of what students could expect to earn during the same time period had they sought full employment year-round. The remaining 31% comprises the percent of their full earning potential that they forgo. Obviously, this assumption varies by person—some students forego more and others less. Without knowing the actual jobs that students hold over the summer, however, the 31% in forgone earnings serves as a reasonable average. Thus, non-working students give up what they can potentially earn during the academic year during their time outside of class, plus the 31% of their full earning potential that they forego in the summer. The total value of non-working students' forgone earnings comes to \$16.9 million.

Working students are able to maintain all or part of their earnings 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. To account for this, we use the same assumption for non-working students' summer employment, assuming that working students hold jobs that pay 69% of what they would have earned had they chosen to work full-time rather than go to the University, giving up 31% of their full earning potential.

Working students also give up a portion of their leisure time in order to go to school, and mainstream theory places a value on this.¹⁶ The amount of leisure time that students forgo is approximately 1.9 hours per day.¹⁷ Assuming that



¹⁵ Emsi provided an estimate of the percentage of students employed because the University was unable to provide the data.

¹⁶ See James M. Henderson and Richard E. Quandt, *Microeconomic Theory: A Mathematical Approach* (New York: McGraw-Hill Book Company, 1971).

¹⁷ Equal to the difference between the average number of leisure hours per day for students and the average number of leisure hours per day for non-students. See Human Resources and Skills Development Canada, "Leisure - Total Leisure Time," HRSDC Indicators of Well-being in Canada. <http://www4.hrsdc.gc.ca/3ndic.1t.4r@-eng.jsp?iid=52> and Bureau of Labor Statistics, "Charts by Topic: Leisure and sports activities," BLS American Time Use Survey, last modified November 2012. <http://www.bls.gov/TUS/CHARTS/LEISURE.HTM>.

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 \$4.9 million, equal to the sum of their foregone earnings (\$1.4 million) and forgone leisure time (\$3.5 million).

The steps leading up to the calculation of student costs during the reporting year appear in Table 3.1. Direct outlays amount to \$9 million, the sum of tuition and fees (\$7.5 million) and books and supplies (\$1.4 million). Opportunity costs for working and non-working students amount to \$21.8 million. Summing all values together yields a total of \$30.8 million in student costs.

TABLE 3.1: AU STUDENT COSTS (THOUSANDS), FY 2017-18

Direct outlays	
Tuition and fees	\$7,512
Books and supplies	\$1,442
Total direct outlays	\$8,954
Opportunity costs	
Earnings forgone by non-working students	\$16,909
Earnings forgone by working students	\$1,445
Value of leisure time forgone by working students	\$3,476
Total opportunity costs	\$21,829
Total student costs	\$30,783

Source: Based on data provided by AU and outputs of the Emsi impact model.

Linking education to earnings

Having estimated the costs of education to students, we weigh these 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 1.4, mean earnings levels at the midpoint of the average-aged worker's career increase as people reach higher levels of education. The differences in earnings define the upper bound benefits of moving from one education level to the next.¹⁸

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

¹⁸ As discussed in Appendix 5, the upper bound benefits of education must be controlled for participant characteristics that also correlate with future wage increases, including inherent ability, socioeconomic status, and family background.



stream to AU's FY 2017-18 students first by determining their average annual increase in earnings, equal to \$7 million. This value represents the higher earnings that accrue to students at the midpoint of their careers and is calculated based on the marginal wage increases of the credits that students complete while attending the University. For a full description of the methodology used to derive the \$7 million, see Appendix 6.

The second step is to project the \$7 million annual increase in earnings into the future, for as long as students remain active in the workforce. We do this by applying a set of scalars derived from the slope of the earnings function developed by Jacob Mincer to predict the change in earnings at each age in an individual's working career.¹⁹ Appendix 6 provides more information on the Mincer function and how it is used to predict future earnings growth. With the \$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, come to a peak shortly after the career midpoint, and then dampen slightly as students approach retirement at age 65. This earnings stream appears in Column 2 of Table 3.2.

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 total FY 2017-18 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 University 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 Chapter 2, settling-in factors delay the onset of the benefits by one to three years for students who graduate with a bachelor's degree or certificate, and by one to five years for continuing students.

Beyond the first five years of the time horizon, students will leave the workforce over time for any number of reasons, whether because of 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 in Chapter 2. The likelihood that students leave the workforce increases as they 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 earnings to students after accounting for both the settling-in patterns and attrition.

¹⁹ See Mincer, 1958.



TABLE 3.2: PROJECTED BENEFITS AND COSTS, STUDENT PERSPECTIVE

1	2	3	4	5	6
Year	Gross higher earnings to students (millions)	% active in workforce	Net higher earnings to students (millions)	Student costs (millions)	Net cash flow (millions)
0	\$4.4	15%	\$0.7	\$30.8	-\$30.1
1	\$4.6	26%	\$1.2	\$0.0	\$1.2
2	\$4.7	34%	\$1.6	\$0.0	\$1.6
3	\$4.9	47%	\$2.3	\$0.0	\$2.3
4	\$5.1	69%	\$3.5	\$0.0	\$3.5
5	\$5.3	94%	\$4.9	\$0.0	\$4.9
6	\$5.4	94%	\$5.1	\$0.0	\$5.1
7	\$5.6	94%	\$5.3	\$0.0	\$5.3
8	\$5.8	94%	\$5.4	\$0.0	\$5.4
9	\$5.9	94%	\$5.6	\$0.0	\$5.6
10	\$6.1	94%	\$5.8	\$0.0	\$5.8
11	\$6.3	95%	\$5.9	\$0.0	\$5.9
12	\$6.4	95%	\$6.1	\$0.0	\$6.1
13	\$6.6	95%	\$6.2	\$0.0	\$6.2
14	\$6.7	95%	\$6.3	\$0.0	\$6.3
15	\$6.8	94%	\$6.5	\$0.0	\$6.5
16	\$7.0	94%	\$6.6	\$0.0	\$6.6
17	\$7.1	94%	\$6.7	\$0.0	\$6.7
18	\$7.2	94%	\$6.8	\$0.0	\$6.8
19	\$7.3	94%	\$6.9	\$0.0	\$6.9
20	\$7.4	94%	\$6.9	\$0.0	\$6.9
21	\$7.5	94%	\$7.0	\$0.0	\$7.0
22	\$7.6	93%	\$7.1	\$0.0	\$7.1
23	\$7.6	93%	\$7.1	\$0.0	\$7.1
24	\$7.7	93%	\$7.1	\$0.0	\$7.1
25	\$7.7	93%	\$7.2	\$0.0	\$7.2
26	\$7.8	92%	\$7.2	\$0.0	\$7.2
27	\$7.8	92%	\$7.2	\$0.0	\$7.2
28	\$7.8	75%	\$5.8	\$0.0	\$5.8
29	\$7.8	60%	\$4.7	\$0.0	\$4.7
30	\$7.8	47%	\$3.7	\$0.0	\$3.7
31	\$7.8	36%	\$2.8	\$0.0	\$2.8
32	\$7.7	27%	\$2.1	\$0.0	\$2.1
33	\$7.7	19%	\$1.5	\$0.0	\$1.5
34	\$7.7	13%	\$1.0	\$0.0	\$1.0
35	\$7.6	8%	\$0.6	\$0.0	\$0.6
36	\$7.5	5%	\$0.4	\$0.0	\$0.4
37	\$7.4	3%	\$0.2	\$0.0	\$0.2
38	\$7.3	1%	<\$0.1	\$0.0	<\$0.1
Present value			\$65.9	\$30.8	\$35.2

Benefit-cost ratio	Return on investment (ROI)	Internal rate of return	Payback period (no. of years)
2.1	1.1	13.8%	8.1

* Includes the "settling-in" factors and attrition.

Source: Emsi impact model.



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 6.6%²⁰ (see the "Discount Rate" box). 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, return on investment, 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 return on investment greater than 0, a rate of return that exceeds the discount rate, and a reasonably short payback period.

In Table 3.2, the higher earnings of AU's students are projected across their working lives by applying the Mincer curve, adjusted to account for students who are not active in the workforce, and discounted to the present. This yields a cumulative sum of approximately \$65.9 million, the present value of all of the future earnings increments (see Column 4 of Table 3.2). This may also be interpreted as the gross capital asset value of the students' higher earnings stream. In effect, the aggregate FY 2017-18 student body is rewarded for their investment in AU with a capital asset valued at \$65.9 million.

The students' cost of attending AU is shown in Column 5 of Table 3.2, equal to a present value of \$30.8 million. Note that costs only occur 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 2.1 (equal to \$65.9 million in benefits divided by \$30.8 million in costs).

The return on investment – or frequently referred to as ROI – is similar to the benefit-cost ratio except that the numerator used in the calculation is the net present value of the benefits, as opposed to the present value. This removes the cost of the investment from the numerator to derive the net return, *i.e.*, the amount that investors receive over and above each dollar of their original investment. ROI can also be derived simply by subtracting one from the benefit-cost ratio. A positive ROI means that the investment is profitable. In the case of AU students, an ROI of 1.1 means that the students receive an additional \$1.10 in present value terms for every dollar they invest in the University.

Another way to compare the same benefits stream and associated cost is to compute the internal rate of return. The internal rate of return indicates the interest rate that a bank would have to pay a depositor to yield an equally attractive



Discount Rate

The discount rate is a rate of interest that converts future costs and benefits to present values. For example, \$1,000 in higher earnings realized 30 years in the future is worth much less than \$1,000 in the present. All future values must therefore be expressed in present value terms in order to compare them with investments (*i.e.*, costs) made today. The selection of an appropriate discount rate, however, can become an arbitrary and controversial undertaking. As suggested in economic theory, the discount rate should reflect the investor's opportunity cost of capital, *i.e.*, the rate of return one could reasonably expect to obtain from alternative investment schemes. In this study we assume a 6.6% discount rate from the student perspective and a 2.8% discount rate from the taxpayer and social perspectives.

*An ROI of **1.1** means that the students receive an additional **\$1.10** in present value terms for every dollar they invest in the university.*

²⁰ We use student loan rates to approximate the students' discount rate. Floating interest rates for Canada student loans are 2.5% plus the prime rate. See Government of Canada, "Interest Rates for Canada Student Loans," Student Loans & Grants. The prime rate – equal to 4.1% – is drawn from Bank of Canada, "Canadian interest rates and monetary policy variables: 10-year lookup," Bank of Canada Rates & Statistics. We thus have a student discount rate of 2.5% + 4.1% = 6.6%.

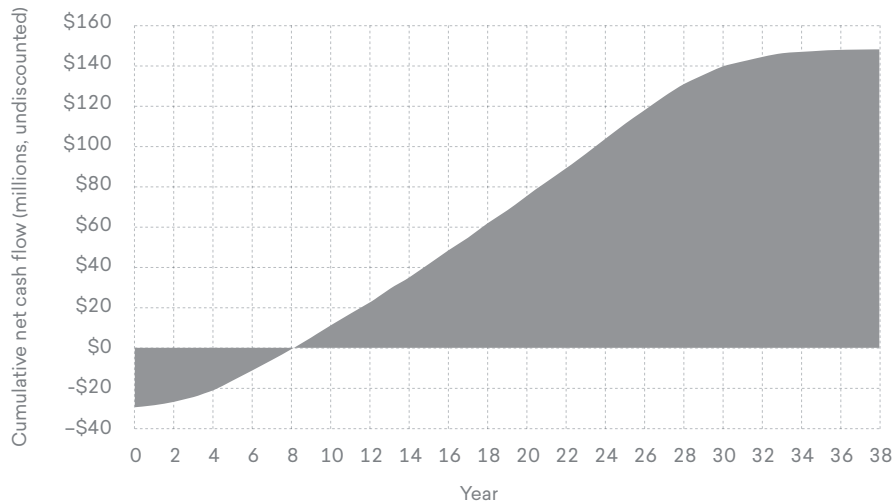


stream of future payments.²¹ Table 3.2 shows AU’s students earning average returns of 13.8% on their investment of time and money. This is a favourable return compared, for example, to approximately 1% on a standard bank savings account, or 10% on stocks and bonds (thirty-year average return).

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 13.8% student rate of return is a real rate. With an inflation rate of 1.9% (the average rate reported over the past 20 years as per the Statistics Canada, Consumer Price Index), the corresponding nominal rate of return is 15.8%, 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.²² Beyond that point, returns are what economists would call “pure costless rent.” As indicated in Table 3.2, students at AU see, on average, a payback period of 8.1 years, meaning 8.1 years after their initial investment of foregone earnings and out-of-pocket costs, they will have received enough higher future earnings to fully recover those costs (Figure 3.1).

FIGURE 3.1: STUDENT PAYBACK PERIOD



Source: Emsi impact model.

- 21 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. An education investor, 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.
- 22 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.



Taxpayer perspective

From the taxpayer perspective, the pivotal step is to home in on the public benefits that specifically accrue to the provincial government. For example, benefits resulting from income growth are limited to increased provincial tax payments. Similarly, savings related to improved health, reduced crime, and fewer income assistance claims, discussed below, are limited to those received strictly by provincial government. In all instances, benefits to private residents, provincial businesses, or the federal government are excluded.

Growth in provincial tax revenues

As a result of their time at AU, students earn more because of the skills they learned while attending the University, 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 labour and non-labour (i.e., capital) income are considered the effect of a skilled workforce. These in turn increase tax revenues since the provincial government is able to apply tax rates to higher earnings.

Estimating the effect of AU on increased tax revenues begins with the present value of the students' future earnings stream, which is displayed in Column 4 of Table 3.2. To this, we apply a multiplier derived from Emsi's CRIO model to estimate the added labour income created in the province as students and businesses spend their higher earnings.²³ As labour income increases, so does non-labour income, which consists of monies gained through investments. To calculate the growth in non-labour income, we multiply the increase in labour income by a ratio of the Ontario gross provincial product to total labour income in the province. We also include the spending impacts discussed in Chapter 2 that were created in FY 2017-18 from operations, research, visitor, and student spending. To each of these, we apply the prevailing tax rates so we capture only the tax revenues attributable to provincial government from this additional revenue.

Not all of these tax revenues may be counted as benefits to the province, however. Some students leave the province during the course of their careers, and the higher earnings they receive as a result of their education leaves the province with them. To account for this dynamic, we combine student settlement data from the University with data on migration patterns from the Statis-



TAXPAYER COSTS



Provincial Government Funding

TAXPAYER BENEFITS



Increased Tax Revenue



Avoided Costs to
Provincial Government

²³ For a full description of the Emsi CRIO model, see Appendix 5.

tics Canada to estimate the number of students who will leave the provincial workforce over time.

We apply another reduction factor to account for the students' alternative education opportunities. This is the same adjustment that we use in the calculation of the alumni impact in Chapter 2 and is designed to account for the counterfactual scenario where AU does not exist. The assumption in this case is that any benefits generated by students who could have received an education even without the University cannot be counted as new benefits to taxpayers and society. For this analysis, we assume an alternative education variable of 15%, meaning that 15% of the student population at AU would have generated benefits anyway even without the University. For more information on the alternative education variable, see Appendix 7.

We apply a final adjustment – the “shutdown point” – to net out benefits that are not directly linked to the provincial government costs of supporting the University. As with the alternative education variable, the purpose of this adjustment is to account for counterfactual scenarios. In this case, the counterfactual scenario is where provincial government funding for AU did not exist and AU had to derive the revenue elsewhere by increasing tuition. To estimate this shutdown point, we apply a sub-model that simulates the students' demand curve for education by reducing provincial government support to zero and progressively increasing student tuition and fees. As student tuition and fees increase, enrollment declines. For AU, the shutdown point adjustment is 0%, meaning that AU could not operate without taxpayer support. As such, no reduction applies. For more information on the theory and methodology behind the estimation of the shutdown point, see Appendix 9.

After adjusting for attrition, alternative education opportunities, and the shutdown point, we calculate the present value of the future added tax revenues that occur in the province, equal to \$33 million. 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 assume a 2.8% discount rate, which is the real treasury interest rate recommended by the Bank of Canada for long-term investments.²⁴

Government savings

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



24 Bank of Canada. “Government of Canada benchmark bond yields - long-term.” Bank of Canada Selected Bond Yields. <http://www.bankofcanada.ca/rates/interest-rates/canadian-bonds/>.

savings, also known as external or incidental benefits of education. These represent the avoided costs to the government that otherwise would have been drawn from public resources absent the education provided by AU. Government savings appear in Figure 3.2 and break down into three main categories: 1) health savings, 2) crime savings, and 3) income assistance savings. Health savings include avoided medical costs associated with smoking, alcoholism, obesity, and mental illness. Crime savings consist of avoided costs to the justice system (i.e., police protection, judicial and legal, and corrections). Income assistance savings are comprised of avoided costs due to the reduced number of claims for employment insurance and other forms of employment-related social assistance.

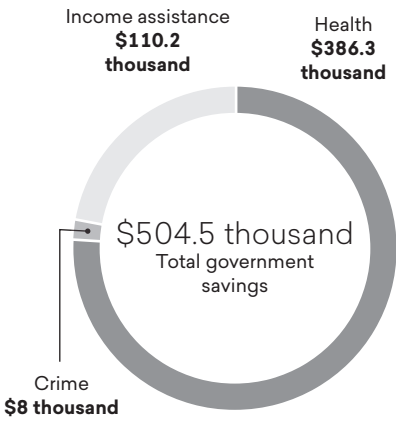
The model quantifies government savings by calculating the probability at each education level that individuals will have poor health, commit crimes, or claim income assistance. Deriving the probabilities involves assembling data from a variety of studies and surveys analyzing the correlation between education and health, crime, and income assistance at the national and provincial level. We spread the probabilities across the education ladder and multiply the marginal differences by the number of students who earned credits 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 AU, will not have poor health, commit crimes, or claim income assistance. We dampen these results by the “ability bias” adjustment discussed earlier in this chapter and in Appendix 6 to account for other factors besides education that influence individual behaviour. We then multiply the marginal effects of education times the associated costs of health, crime, and income assistance.²⁵ Finally, we apply the same adjustments for attrition, alternative education, and the shutdown point to derive the net savings to the provincial government. Total government savings appear in Figure 3.2 and sum to \$504.5 thousand.

Table 3.3 displays all benefits to taxpayers. The first row shows the added tax revenues created in the province, equal to \$33 million, from students’ higher earnings, increases in non-labour income, and spending impacts. The sum of the government savings and the added income in the province is \$33.5 million, as shown in the bottom row of Table 3.3. These savings continue to accrue in the future as long as the FY 2017-18 student population of AU remains in the workforce.

25 For a full list of the data sources used to calculate the social externalities, see Appendix 4. See also Appendix 9 for a more in-depth description of the methodology.

*In addition to the creation of **higher income** in the province, education is statistically associated with a variety of lifestyle changes that generate **social savings**.*

FIGURE 3.2: PRESENT VALUE OF GOVERNMENT SAVINGS



Source: Emsi impact model.

TABLE 3.3: PRESENT VALUE OF ADDED TAX REVENUE AND GOVERNMENT SAVINGS (THOUSANDS)

Added tax revenue	\$32,973
Government savings	
Health-related savings	\$386
Crime-related savings	\$8
Income assistance savings	\$110
Total government savings	\$505
Total taxpayer benefits	\$33,478

Source: Emsi impact model.

Return on investment

Taxpayer costs are reported in Table 3.4 and come to \$16.8 million, equal to the annual contribution of provincial government to AU. In return for their public support, therefore, taxpayers are rewarded with an investment benefit-cost ratio of 2.0 (= \$33.5 million ÷ \$16.8 million). The return on investment is 1.0, indicating a profitable investment.

At 9.4%, the rate of return to provincial taxpayers is also favourable. Given that the stakeholder in this case is the public sector, we assume a 2.8% discount rate, which is the real treasury interest rate recommended by the Bank of Canada for long-term investments.²⁶ 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 2.8% would mean that the University just pays its own way. In principle, governments could borrow monies used to support AU and repay the loans out of the resulting added taxes and reduced government expenditures. A rate of return of 9.4%, on the other hand, means that AU not only pays its own way, but it also generates a surplus that provincial government can use to fund other programs. It is unlikely that other government programs could make such a claim.

*A rate of return of **9.4%** means that AU not only pays its own way, but it also generates a surplus that provincial government can use to fund other programs.*

²⁶ Bank of Canada. "Government of Canada benchmark bond yields - long-term." Bank of Canada Selected Bond Yields. <http://www.bankofcanada.ca/rates/interest-rates/canadian-bonds/>.



TABLE 3.4: PROJECTED BENEFITS AND COSTS, TAXPAYER PERSPECTIVE

1	2	3	4
Year	Benefits to taxpayers (millions)	Provincial gov't costs (millions)	Net cash flow (millions)
0	\$5.0	\$16.8	-\$11.8
1	\$0.3	\$0.0	\$0.3
2	\$0.4	\$0.0	\$0.4
3	\$0.6	\$0.0	\$0.6
4	\$0.9	\$0.0	\$0.9
5	\$1.2	\$0.0	\$1.2
6	\$1.3	\$0.0	\$1.3
7	\$1.3	\$0.0	\$1.3
8	\$1.4	\$0.0	\$1.4
9	\$1.4	\$0.0	\$1.4
10	\$1.5	\$0.0	\$1.5
11	\$1.5	\$0.0	\$1.5
12	\$1.5	\$0.0	\$1.5
13	\$1.6	\$0.0	\$1.6
14	\$1.6	\$0.0	\$1.6
15	\$1.6	\$0.0	\$1.6
16	\$1.7	\$0.0	\$1.7
17	\$1.7	\$0.0	\$1.7
18	\$1.7	\$0.0	\$1.7
19	\$1.7	\$0.0	\$1.7
20	\$1.8	\$0.0	\$1.8
21	\$1.8	\$0.0	\$1.8
22	\$1.8	\$0.0	\$1.8
23	\$1.8	\$0.0	\$1.8
24	\$1.8	\$0.0	\$1.8
25	\$1.8	\$0.0	\$1.8
26	\$1.8	\$0.0	\$1.8
27	\$1.8	\$0.0	\$1.8
28	\$1.5	\$0.0	\$1.5
29	\$1.2	\$0.0	\$1.2
30	\$0.9	\$0.0	\$0.9
31	\$0.7	\$0.0	\$0.7
32	\$0.5	\$0.0	\$0.5
33	\$0.4	\$0.0	\$0.4
34	\$0.2	\$0.0	\$0.2
35	\$0.2	\$0.0	\$0.2
36	<\$0.1	\$0.0	<\$0.1
37	<\$0.1	\$0.0	<\$0.1
38	<\$0.1	\$0.0	<\$0.1
Present value	\$33.5	\$16.8	\$16.7
Benefit-cost ratio	Return on investment (ROI)	Internal rate of return	Payback period (no. of years)
2.0	1.0	9.4%	11.0

Source: Emsi impact model.





Social perspective

Society as a whole in Ontario benefits from the education that AU provides through the income that students create in the province 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 AU did not exist. Society's investment in AU stretches across a number of investor groups, from students to employers to taxpayers. We weigh the benefits generated by AU to these investor groups against the total social costs of generating those benefits. The total social costs include all AU expenditures, all student expenditures, and all student opportunity costs. The social costs come to a total present value of \$53.2 million.

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

Income growth in the province

In the process of absorbing the newly-acquired skills of AU's students, not only does the productivity of Ontario's workforce increase, but so does the productivity of its physical capital and assorted infrastructure. Students earn more because of the skills they learned while attending the University, and businesses earn more because student skills make capital more productive (*i.e.*, buildings, machinery, and everything else). This in turn raises profits and other business property income. Together, increases in earnings and other provincial income are considered the effect of a skilled workforce.

Estimating the effect of AU on income growth in the follows the same process used when calculating increased tax revenues in the taxpayer perspective. However, instead of looking at just the tax revenue portion, we include all of the added earnings and business output. We again factor in student attrition and alternative education opportunities. The shutdown point does not apply to the growth of the economic base because the social perspective captures not only the provincial taxpayer support to the University, but also the support from the students and other non-government sources.



SOCIAL COSTS



AU Expenditures



Student Out-of-Pocket Expenses



Student Opportunity Costs

SOCIAL BENEFITS



Increased Province Earnings



Avoided Costs to Society



After adjusting for attrition and alternative education opportunities, we calculate the present value of the future added income that occurs in the province, equal to \$207.3 million. 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. As in the taxpayer perspective, given that the stakeholder in this case is the public sector, we use a discount rate of 2.8%.

Social savings

Similar to the government savings discussed above, society as a whole sees savings due to external or incidental benefits of education. These represent the avoided costs that otherwise would have been drawn from private and public resources absent the education provided by AU. Social benefits appear in Table 3.5 and break down into three main categories: 1) health savings, 2) crime savings, and 3) income assistance savings. These are similar to the categories from the taxpayer perspective above, although health savings now also include lost productivity and other effects associated with smoking, alcohol dependence, obesity, and mental illness. In addition to avoided costs to the justice system, crime savings also consist of avoided victim costs and benefits stemming from the added productivity of individuals who otherwise would have been incarcerated. Income assistance savings are comprised of the avoided government costs due to the reduced number of claims for employment insurance and other forms of employment-related social assistance. Finally, we apply the same adjustments for attrition and alternative education to derive the net savings to society.

Table 3.5 displays the results of the analysis. The first row shows the added income created in the province, equal to \$207.3 million, from students' higher earnings and their multiplier effects, increases in non-labour income, and spending impacts. Social savings appear next, beginning with a breakdown of savings related to health. These savings amount to a present value of \$1.1 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 sum to \$25.4 thousand, 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 income assistance amount to \$110.2 thousand, stemming from a reduced number of persons in need of employment insurance and employment-related social assistance. All told, social savings amounted to \$1.3 million in benefits to communities and citizens in Ontario.



Beekeeper Analogy

Beekeepers provide a classic example of positive externalities (sometimes called “neighbourhood effects”). The beekeeper’s intention is to make money selling honey. Like any other business, receipts must at least cover operating costs. If they do not, 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 do well to subsidize activities that produce positive externalities, such as beekeeping.

Educational institutions are like beekeepers. While their principal aim is to provide education and raise people’s earnings, in the process an array of external benefits is 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 of taxpayer expenditures on education, the institution impact model tracks and accounts for many of these external social benefits.



TABLE 3.5: PRESENT VALUE OF THE FUTURE ADDED INCOME AND SOCIAL SAVINGS IN THE PROVINCE (THOUSANDS)

Added Income	\$207,250
Social Savings	
Health	
Smoking	\$679
Alcoholism	\$189
Obesity	\$115
Mental illness	\$141
Total health savings	\$1,125
Crime	
Criminal Justice System savings	\$7
Crime victim savings	\$13
Added productivity	\$5
Total crime savings	\$25
Income assistance	
Employment insurance savings	\$71
Employment-related social assistance savings	\$39
Total income assistance savings	\$110
Total social savings	\$1,260
Total, added income + social savings	\$208,511

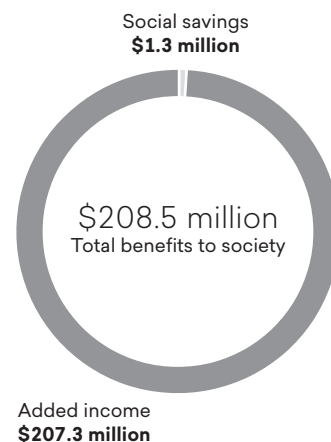
Source: Emsi impact model.

The sum of the social savings and the added income in the province is \$208.5 million, as shown in the bottom row of Table 3.5 and in Figure 3.3. These savings accrue for years out into the future, for as long as AU's FY 2017-18 students remain active in the workforce.

Return on investment to society

Table 3.6 presents the stream of benefits accruing to society in Ontario and the total costs of generating those benefits. Comparing the present value of the benefits and the social costs, we have a benefit-cost ratio of 3.9. This means that for every dollar invested in AU educations, whether it is the money spent on day-to-day operations of the University or an investment from students, an average of \$3.90 in benefits will accrue to society in Ontario.²⁷

FIGURE 3.3: PRESENT VALUE OF BENEFITS TO SOCIETY



Source: Emsi impact model.

²⁷ 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.

TABLE 3.6: PROJECTED BENEFITS AND COSTS, SOCIAL PERSPECTIVE

1	2	3	4
Year	Benefits to society (millions)	Social costs (millions)	Net cash flow (millions)
0	\$31.2	\$53.2	-\$21.9
1	\$1.9	\$0.0	\$1.9
2	\$2.5	\$0.0	\$2.5
3	\$3.7	\$0.0	\$3.7
4	\$5.6	\$0.0	\$5.6
5	\$7.9	\$0.0	\$7.9
6	\$8.1	\$0.0	\$8.1
7	\$8.4	\$0.0	\$8.4
8	\$8.6	\$0.0	\$8.6
9	\$8.9	\$0.0	\$8.9
10	\$9.1	\$0.0	\$9.1
11	\$9.3	\$0.0	\$9.3
12	\$9.6	\$0.0	\$9.6
13	\$9.8	\$0.0	\$9.8
14	\$10.0	\$0.0	\$10.0
15	\$10.1	\$0.0	\$10.1
16	\$10.3	\$0.0	\$10.3
17	\$10.5	\$0.0	\$10.5
18	\$10.6	\$0.0	\$10.6
19	\$10.7	\$0.0	\$10.7
20	\$10.8	\$0.0	\$10.8
21	\$10.9	\$0.0	\$10.9
22	\$11.0	\$0.0	\$11.0
23	\$11.1	\$0.0	\$11.1
24	\$11.1	\$0.0	\$11.1
25	\$11.2	\$0.0	\$11.2
26	\$11.2	\$0.0	\$11.2
27	\$11.2	\$0.0	\$11.2
28	\$9.1	\$0.0	\$9.1
29	\$7.3	\$0.0	\$7.3
30	\$5.7	\$0.0	\$5.7
31	\$4.4	\$0.0	\$4.4
32	\$3.2	\$0.0	\$3.2
33	\$2.3	\$0.0	\$2.3
34	\$1.5	\$0.0	\$1.5
35	\$1.0	\$0.0	\$1.0
36	\$0.6	\$0.0	\$0.6
37	\$0.3	\$0.0	\$0.3
38	\$0.1	\$0.0	\$0.1
Present value	\$208.5	\$53.2	\$155.3

Benefit-cost ratio	Return on investment (ROI)	Payback period (no. of years)
3.9	2.9	5.0

Source: Emsi impact model.



With and without social savings

Earlier in this chapter, social benefits attributable to education (reduced crime, fewer income assistance claims, and improved health) were defined as externalities that are incidental to the operations of the University. Some would question the legitimacy of including these benefits in the calculation of rates of return to education, arguing that only the tangible benefits, *i.e.*, higher income, should be counted. Table 3.4 and Table 3.6 are inclusive of social benefits reported as attributable to AU. Recognizing the other point of view, Table 3.7 shows the results for both the taxpayer and perspectives exclusive of social benefits. As indicated, there is little change, and returns are still above threshold values (a benefit-cost ratio greater than 1.0, a return on investment greater than 0, and a rate of return greater than 2.8%), confirming that taxpayers and society receive value from investing in AU.

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

	Including social savings	Excluding social savings
Taxpayer perspective		
Net present value (thousands)	\$16,662	\$16,157
Benefit-cost ratio	2.0	2.0
Return on investment	1.0	1.0
Internal rate of return	9.4%	9.2%
Payback period (no. of years)	11.0	12.2
Social perspective		
Net present value (thousands)	\$155,319	\$154,059
Benefit-cost ratio	3.9	3.9
Return on investment	2.9	2.9
Payback period (no. of years)	5.0	5.0

Source: Emsi impact model.



CHAPTER 4:

Conclusion



WHILE AU's value to its region is larger than simply its economic impact, understanding that dollars and cents value is an important asset to understanding the University's value. In order to fully assess AU's value to the Sault Ste. Marie economy, this report has evaluated the University from the perspectives of economic impact analysis and investment analysis.

From an economic impact perspective, we calculated that AU generates a total economic impact of **\$80.2 million** in added income for the regional economy. This represents the sum of several different impacts, including the University's:

- Operations spending impact (**\$20.9 million**);
- Research spending impact (**\$563.4 thousand**);
- Visitor spending impact (**\$344.3 thousand**);
- Student spending impact (**\$1.6 million**); and
- Alumni impact (**\$56.8 million**).

This impact means that AU is responsible for supporting **1,106 jobs** in Sault Ste. Marie. For perspective, this means that **one out of every 33 jobs** in Sault Ste. Marie is supported by the activities of AU and its students.

Since AU's activity represents an investment by various parties, including students, society as a whole, and taxpayers, we also considered the University as an investment to see the value it provides to these investors. For every dollar invested by students, taxpayers, and society, AU offers a benefit of **\$2.10**, **\$2.00**, and **\$3.90**, respectively. These results indicate that AU is an attractive investment to students with rates of return that exceed alternative investment opportunities. At the same time, the presence of AU expands the provincial economy and creates a wide range of positive social benefits that accrue to taxpayers and society in general within Ontario.

Modeling the economic value of the University is subject to many factors, the variability of which we considered in our sensitivity analysis (Appendix 1). With this variability accounted for, we present the findings of this study as a robust picture of the economic value of AU.



*These results indicate that AU is an **attractive investment to students**, with rates of return that exceed alternative investment opportunities.*

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Appendix 1: 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 chapter, we test the sensitivity of the model to the following input factors: 1) the alternative education variable, 2) the substitution effect variable, 3) the student employment variables, 4) the discount rate, and 5) the retained student variable.

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 training providers in the region. Given the difficulty in accurately specifying the alternative education variable, we test the sensitivity of the taxpayer and social 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 A1.1. 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 repeated introducing one 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 9.4% to 9.2%. Likewise, a decrease of 10% (from 15% to 14%) in the assumption increases the rate of return from 9.4% to 9.7%.

TABLE A1.1: SENSITIVITY ANALYSIS OF ALTERNATIVE EDUCATION VARIABLE, TAXPAYER AND SOCIAL PERSPECTIVES

% variation in assumption	-50%	-25%	-10%	Base Case	10%	25%	50%
Alternative education variable	8%	11%	14%	15%	17%	19%	23%
Taxpayer perspective							
Net present value (millions)	\$19.6	\$18.1	\$17.3	\$16.7	\$16.1	\$15.2	\$13.7
Benefit-cost ratio	2.2	2.1	2.0	2.0	2.0	1.9	1.8
Return on investment	1.2	1.1	1.0	1.0	1.0	0.9	0.8
Rate of return	10.6%	10.0%	9.7%	9.4%	9.2%	8.9%	8.3%
Social perspective							
Net present value (millions)	\$173.7	\$164.5	\$159.0	\$155.3	\$151.6	\$146.1	\$136.9
Benefit-cost ratio	4.3	4.1	4.0	3.9	3.9	3.7	3.6
Return on investment	3.3	3.1	3.0	2.9	2.9	2.7	2.6

Based on this sensitivity analysis, the conclusion can be drawn that AU's investment analysis results from the taxpayer and social 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 2.8%), even when the alternative education variable 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 social perspectives is not very sensitive.

Substitution effect variable

The substitution effect variable only affects the alumni calculation in Table 2.8. In the model, we assume a substitution effect variable of 50%, which means that we claim only 50% of the region's labour demands would have been satisfied without the presence of AU. In other words, businesses that hired AU students could have substituted some of these workers with equally-qualified people from outside the region had there been no AU students to hire. Therefore, we attribute only the remaining 50% of the initial labour income generated by the increased alumni productivity to the University.

Table A1.2 presents the results of the sensitivity analysis for the substitution 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 AU, for example, range from a high of \$73.9 million at a -30% variation to a low of \$39.8 million at a +30% variation from the base case assumption. This means that if the substitution variable increases, the impact that we claim as attributable to student productivity decreases. Nonetheless, the impact of alumni still remains a sizeable factor in the Sault Ste. Marie economy, even under the most conservative assumptions.

TABLE A1.2: SENSITIVITY ANALYSIS OF SUBSTITUTION EFFECT VARIABLE

% variation in assumption	-30%	-20%	-10%	Base case	10%	20%	30%
Substitution effect variable	35%	40%	45%	50%	55%	60%	65%
Alumni impact (millions)	\$73.9	\$68.2	\$62.5	\$56.8	\$51.2	\$45.5	\$39.8

Student employment variables

Student employment variables are difficult to estimate because many students do not report their employment status or because post-secondary institutions generally do not collect this kind of information. Employment variables include the following: 1) the percentage of students who are employed while attending the University, and 2) the percentage of earnings that working students receive

relative to the earnings they would have received had they not chosen to attend the University. Both employment variables affect the investment analysis results from the student perspective.

Students incur substantial expense by attending AU 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 50% of students are employed.²⁸ 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 who are working while attending the University earn only 88.3%, on average, of the earnings that they would have statistically received if not attending AU. This suggests that many students hold jobs that accommodate their attendance at AU, though it is at an additional cost in terms of receiving a wage that is less than what they might otherwise make. The model captures this difference in wages and counts it as part of the opportunity cost of time. As above, the estimate is tested in the sensitivity analysis by changing it to 100% and then to 0%.

The changes generate results summarized in Table A1.3, 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 50% and B equal to 69%. 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%.

TABLE A1.3: SENSITIVITY ANALYSIS OF STUDENT EMPLOYMENT VARIABLES

Variations in assumptions	Net present value (millions)	Benefit-cost ratio	Return on investment	Internal rate of return
Base case: A = 50%, B = 69%	\$35.2	2.1	1.1	13.8%
Scenario 1: A = 100%, B = 69%	\$47.1	3.5	2.5	20.4%
Scenario 2: A = 50%, B = 100%	\$39.1	2.5	1.5	15.5%
Scenario 3: A = 100%, B = 100%	\$50.0	4.1	3.1	23.1%
Scenario 4: A = 0%, B = 0%	\$28.2	1.7	0.7	11.6%

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

28 Emsi provided an estimate of the percentage of students employed because the University was unable to provide the data.

- **Scenario 1:** Increasing the percent of students employed (A) from 50% to 100%, the net present value, benefit-cost ratio, return on investment, and internal rate of return improve to \$47.1 million, 3.5, 2.5, and 20.4%, 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 69% to 100%, the net present value, benefit-cost ratio, return on investment, and internal rate of return improve to \$39.1 million, 2.5, 1.5, and 15.5%, 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, benefit-cost ratio, return on investment, and internal rate of return improve yet further to \$50 million, 4.1, 3.1, and 23.1%, 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, benefit-cost ratio, return on investment, and internal rate of return to \$28.2 million, 1.7, 0.7, and 11.6%, respectively, relative to base case results. These results are reflective of an increased opportunity cost – none of the students are employed in this case.²⁹

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 Chapter 3 are realistic, indicating that investments in AU generate excellent returns, well above the long-term average percent rates of return in stock and bond markets.

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

²⁹ 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.

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 6.6% discount rate for students and a 2.8% discount rate for taxpayers and society.³⁰ Like the sensitivity analysis of the alternative education variable, we vary the base case discount rates for students, taxpayers, and society 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, benefit-cost ratio, and return on investment are shown for students, taxpayers, and society in Table A1.4.

TABLE A1.4: SENSITIVITY ANALYSIS OF DISCOUNT RATE

% variation in assumption	-50%	-25%	-10%	Base Case	10%	25%	50%
Student perspective							
Discount rate	3.3%	5.0%	6.0%	6.6%	7.3%	8.3%	9.9%
Net present value (millions)	\$73.4	\$51.3	\$41.0	\$35.2	\$29.9	\$23.2	\$14.1
Benefit-cost ratio	3.4	2.7	2.3	2.1	2.0	1.8	1.5
Return on investment	2.4	1.7	1.3	1.1	1.0	0.8	0.5
Taxpayer perspective							
Discount rate	1.4%	2.1%	2.5%	2.8%	3.0%	3.4%	4.1%
Net present value (millions)	\$23.7	\$19.9	\$17.9	\$16.7	\$15.5	\$13.8	\$11.3
Benefit-cost ratio	2.4	2.2	2.1	2.0	1.9	1.8	1.7
Return on investment	1.4	1.2	1.1	1.0	0.9	0.8	0.7
Social perspective							
Discount rate	1.4%	2.1%	2.5%	2.8%	3.0%	3.4%	4.1%
Net present value (millions)	\$199.0	\$175.6	\$163.1	\$155.3	\$148.0	\$137.7	\$122.4
Benefit-cost ratio	4.7	4.3	4.1	3.9	3.8	3.6	3.3
Return on investment	3.7	3.3	3.1	2.9	2.8	2.6	2.3

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 6.6% to 9.9%) reduces the students' benefit-cost ratio from 2.1 to 1.5. Conversely, reducing the discount rate for students by 50% (from 6.6% to 3.3%) increases the benefit-cost ratio from 2.1 to 3.4. The sensitivity analysis results for taxpayers and society show the same inverse relationship between the discount rate and the benefit-cost ratio, with the variance in results being the greatest under the social perspec-

30 These values are based student loan rates from the Government of Canada and benchmark yields for long-term bonds from the Bank of Canada. See the Government of Canada, Student Loans & Grants and the Bank of Canada, Selected Bond Yields.

tive (from a 4.7 benefit-cost ratio at a -50% variation from the base case to a 3.8 benefit-cost ratio at a 50% variation from the base case).

Retained student variable

The retained student variable only affects the student spending calculation in Table 2.6. In the model, we assume a retained student variable of 10%, which means that 10% of AU’s students who originated from Sault Ste. Marie would have left the region for other education opportunities if AU did not exist. The money these retained students spent in the region for accommodation and other personal and household expenses is attributable to AU.

Table A1.5 presents the results of the sensitivity analysis for the retained student variable. The assumption increases and decreases relative to the base case of 10% by the increments indicated in the table. The student spending impact is recalculated at each value of the assumption, holding all else constant. Student spending impacts attributable to AU range from a high of \$1.8 million at a 50% variation to a low of \$1.4 million at a -50% variation from the base case assumption. This means as the retained student variable decreases, the student spending attributable to AU decreases. Even under the most conservative assumptions, the student spending impact on the Sault Ste. Marie economy remains substantial.

TABLE A1.5: SENSITIVITY ANALYSIS OF RETAINED STUDENT VARIABLE

% variation in assumption	-50%	-25%	-10%	Base Case	10%	25%	50%
Retained student variable	5%	7.5%	9%	10%	11%	12.5%	15%
Student spending impact (thousands)	\$1,376	\$1,471	\$1,527	\$1,565	\$1,603	\$1,659	\$1,753

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 absent the publicly-funded educational institutions in the region. An estimate of 10%, for example, means that 10% of students do not depend directly on the existence of the University in order to obtain their education.

Alternative use of funds A measure of how monies that are currently used to fund the University might have otherwise been used if the University 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 regional or provincial workforce due to out-migration, 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 A measure of course value generally equal to 15 contact hours of instruction. In general, it requires 450 contact hours or 30 credits 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.

Earnings Income which is received as a result of labour, *i.e.*, wages and salaries.

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 or decreases total enrollment by a significant amount, demand is elastic. If enrollment remains the same or changes only slightly, demand is inelastic.

Externalities Impacts (positive and negative) for which there is no compensation. Positive externalities of education include improved social behaviours such as lower crime, reduced 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 behaviours.

Full-time equivalent The full-time equivalent (FTE) measure is a method of standardizing the actual course loads of students against their normal course loads in order to normalize and combine the institution's full-time and part-time student counts.

Gross regional product Measure of the final value of all goods and services produced in a region after netting out the cost of goods used in production. Alternatively, gross regional product (GRP) equals the combined incomes of all factors of production, *i.e.*, labour, land and capital. These include wages, salaries, profits, rents, and other. gross regional product is also sometimes called "value added."

Initial effect Income generated by the initial injection of monies into the economy through the expenditures of the University and its 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 labour that this requires. In an educational setting, when institutions pay wages and salaries and spend money for supplies in the region, 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 which, 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.

Multiplier The number of times a dollar cycles through the economy, generating additional income and jobs, before leaving the economy. Therefore, a multiplier of 1.7 estimates that a dollar will generate an additional \$0.70 in the economy before leaving.

Multiplier effect Additional income created in the economy through multipliers. It consists of the income created by the supply chain of the industries initially affected by the spending of the University and its 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.

Opportunity cost Benefits forgone from alternative B once a decision is made to allocate resources to alternative A. Or, if individuals choose not to attend university, they forgo earnings that they would have received had they chose instead to work full-time. Forgone earnings, therefore, are the “price tag” of choosing to attend university.

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: $\text{payback period} = \text{cost of investment} / \text{net return per period}$.

Return on investment Net present value of benefits divided by present value of costs. If the return on investment (also referred to as the “ROI”) is greater than 0, then the investment is feasible.

Appendix 3: Frequently Asked Questions (FAQs)

This appendix provides answers to some frequently asked questions about the results.

What is economic impact analysis?

Economic impact analysis quantifies the impact from a given economic event – in this case, the presence of the University – on the economy of a specified region.

What is investment analysis?

Investment analysis is a standard method for determining whether or not an existing or proposed investment is economically viable. This methodology is appropriate in situations where a stakeholder puts up a certain amount of money with the expectation of receiving benefits in return, where the benefits that the stakeholder receives are distributed over time, and where a discount rate must be applied in order to account for the time value of money.

Do the results differ by region, and if so, why?

Yes. Regional economic data are drawn from Emsi's proprietary CRIO model, Statistics Canada, and other sources to reflect the specific earnings levels, jobs numbers, unemployment rates, population demographics, and other key characteristics of the region served by the University. Therefore, model results for the University are specific to the given region.

Are the funds transferred to the University increasing in value, or simply being re-directed?

Emsi's approach is not a simple "rearranging of the furniture" where the impact of operations spending is essentially a restatement of the level of funding received by the University. Rather, it is an impact assessment of the additional income created in the region as a result of institutional spending on payroll and other non-pay expenditures, net of any impacts that would have occurred anyway if the University did not exist.

How does the University's rate of return compare to that of other institutions?

In general, Emsi discourages comparisons between institutions since many factors, such as regional economic conditions, institutional differences, and student demographics are outside of the institutions' control. It is best to compare the rate of return to the discount rates of 6.6% (for students) and 2.8% (for taxpayers and society), which can also be seen as the opportunity cost of the investment (since these stakeholder groups could be spending their time and money in other investment schemes besides education). If the rate of return is higher than the discount rate, the stakeholder groups can expect to receive a positive return on their educational investment.

Emsi recognizes that some institutions may want to make comparisons. As a word of caution, if comparing to an institution that had a study commissioned by a firm other than Emsi, then differences in methodology will create an “apples to oranges” comparison and will therefore be difficult. The study results should be seen as unique to each institution.

Net Present Value (NPV): How do I communicate this in laymen's terms?

Which would you rather have: a dollar right now or a dollar thirty years from now? That most people will choose a dollar now is the crux of net present value. The preference for a dollar today means today's dollar is therefore worth more than it would be in the future (in most people's opinion). Because the dollar today is worth more than a dollar in thirty years, you can't add them today as if they have equal value. You need to adjust the values. Not doing so would result in an “apples and oranges” comparison. Adjusting the values for “this time value of money” is called discounting and the result of adding them all up after discounting each value is called net present value.

Internal Rate of Return (IRR): How do I communicate this in laymen's terms?

If students invest \$1 in the University today, they will expect a positive return for that dollar now and in the future. So that \$1 invested today needs to turn into at least a \$1 return for the future. But that dollar will be worth less in the future (due to inflation and so forth). The unknown of what this future \$1 will actually be worth compared to the known of what it is worth today means investors need to be assured that they will receive a given return.

Using the bank as an example, an individual must decide between spending all of their paycheck today or putting it into savings. If they spend it today, they know what it is worth: \$1 = \$1. If they put it into savings, they need to know

that there will be some sort of return to them for spending those dollars in the future rather than now. This is why banks offer interest rates and deposit interest earnings into your account. This makes it so an individual can expect, for example, a 3% return in the future for money that they put into savings now.

The same can be said for the University's students. If they spend \$1 on the University now, they can expect a future return of 13.8%. This can provide them with the assurance that not only will the dollars they invest in the University now provide increased dollars in the future, but they will yield more than if they were to spend money on other investments that may not yield as high of a return.

Total Economic Impact: How do I communicate this in laymen's terms?

Big numbers are great, but putting it into perspective can be a challenge. Table 1.3 in Chapter 1 can help. Find an industry with roughly the same "percentage of the total" as the University. This percentage represents its portion of the total gross regional product (GRP) in the region. This allows the University to say that their combined brick and mortar campuses do just as much for the region as the entire utility *industry*, for example. This powerful statement can put the large total impact number into perspective.

Appendix 4: Example of Sales versus Income

Emsi's economic impact study differs from many other studies because we prefer to report the impacts in terms of income rather than sales (or output). Income is synonymous with value added or gross regional product (GRP). Sales include all the intermediary costs associated with producing goods and services. Income is a net measure that excludes these intermediary costs:

$$\text{Income} = \text{Sales} - \text{Intermediary Costs}$$

For this reason, income is a more meaningful measure of new economic activity than reporting sales. This is evidenced by the use of gross domestic product (GDP) – a measure of income – by economists when considering the economic growth or size of a country. The difference is GRP reflects a region and GDP a country.

To demonstrate the difference between income and sales, let us consider an example of a baker's production of a loaf of bread. The baker buys the ingredients such as eggs, flour, and yeast for \$2.00. He uses capital such as a mixer to combine the ingredients and an oven to bake the bread and convert it into a final product. Overhead costs for these steps are \$1.00. Total intermediary costs are \$3.00. The baker then sells the loaf of bread for \$5.00.

The sales amount of the loaf of bread is \$5.00. The income from the loaf of bread is equal to the sales amount less the intermediary costs:

$$\text{Income} = \$5.00 - \$3.00 = \$2.00$$

In our analysis, income can be found by summing the labour income and non-labour income. To provide context behind these figures, we also report the number of jobs associated with the income. The impacts are also reported in sales terms for reference.

Appendix 5: Emsi's Canada Regional Input-Output Model

Introduction and data sources

Emsi's Canada Regional Input-Output (CRIO) modeling tool estimates the economic relationships among a region's industries and households. The model provides a unified source for regional economic information but more importantly, it provides the essential vehicle for estimating regional multiplier effects. Emsi constructed the CRIO modeling tool using the most disaggregated and up-to-date regional data available for Canada and applying best input-output modeling practices as indicated by the professional literature. The result is a complex automated process capable of creating regionalized models for any geographic area comprised of Census Division and Census Subdivision areas.

Our primary data sources are the following:

- Regional and national jobs-by-industry totals, and national sales-to-jobs ratios (derived from Emsi's industry employment and earnings data process).
- Statistics Canada, "L Level" industry-by-industry input-output tables.

Creation of the IO coefficients matrix

Table A5.1 illustrates sample amounts that each specific industry purchases from other industries. Industry purchases (inputs) run down the columns, while industry sales (output) run across the rows.

TABLE A5.1: SAMPLE INPUT-OUTPUT TABLE (MILLIONS)

	Industry 1	Industry 2	...	Households
Industry 1	3.3	1,532.5	...	242.1
Industry 2	9.2	23.0	...	1,982.7
...
Households	819.3	2,395.6	...	0

In looking at the table above, the value 1,532.5 means that Industry 2 purchases \$1,532,500,000 worth of commodities and/or services from Industry 1. The whole table is an economic double-entry accounting system, configured so that all money inflows have corresponding outflows elsewhere. All regular industries (such as "oil and gas exploration," "machinery manufacturing," "supermarkets," "hospitals," and so on) are captured in the input-output matrix.

Column elements of the input-output table (Table A5.1 above) are “normalized” on column sums (showing the value of total input purchases) to show individual input purchases as percentages of each industry’s overall input purchases. Thus, the cell containing .112 in Table A5.2 means that Industry 2 spends 11.2% of its total input purchases to obtain inputs from Industry 1. The matrix can be viewed as a collection of fixed coefficient production functions. In applied work, the IO coefficients matrix is commonly called the “A” matrix.

TABLE A5.2: SAMPLE “A” MATRIX

	Industry 1	Industry 2	...	Households
Industry 1	.001	.112035
Industry 2	.097	0065
...
Households	.002	.076	...	0

Regionalizing the national A matrix

To create a regional input-output model, we “regionalize” a 303-sector version of the Canada national model derived from publicly available Canadian national L level models. Our regionalisation method is based on the work of economist A.T. Flegg³¹ and involves the creation of region-specific matrices of modified cross-industry location quotients (CILQ)s. In general, a CILQ indicates the relative importance of the supplying (row) industry to the demanding (column) industry. A CILQ less than 1.0 is taken to indicate a likelihood that the supplying industry’s output is insufficient to meet the using industry’s overall input demand, and national model IO coefficients are adjusted downward accordingly, with the deficit imported from other regions.³² Flegg’s breakthrough “modification” to the CILQ IO regionalizing approach was the incorporation of a logarithmic term capturing the effects on trade of relative regional size. Flegg’s modified CILQ is commonly called the “Flegg LQ,” or FLQ formula.

31 A.T. Flegg and T. Tohmo, “Regional Input-Output Tables and the FLQ Formula: A Case Study of Finland,” *Regional Studies* 47, no. 5 (2013): 703-721; A.T. Flegg and C.D. Webber, “Regional Size, Regional Specialization and the FLQ Formula,” *Regional Studies* 34, no. 6 (2000): 563-569; A.T. Flegg and C.D. Webber, “Regional Size, Industrial Location and Input-Output Expenditure Coefficients,” *Regional Studies* 32, no. 55 (1997): 435-444; A.T. Flegg and C.D. Webber, “On the Appropriate Use of Location Quotients in Generating Regional Input-Output Tables: Reply,” *Regional Studies* 31, no. 8 (1997): 795-805; A.T. Flegg and C.D. Webber, “On the Appropriate Use of Location Quotients in Generating Regional Input-Output Tables,” *Regional Studies* 29, no. 6 (1994): 547-561.

32 For a complete discussion of CILQ IO regionalizing methods, see Chapter 8 in Ronald E. Miller and Peter D. Blair, *Input-Output Analysis: Foundations and Extensions* (New York: Cambridge University Press, 2009).

For off-diagonal elements (*i.e.*, where *i* does not equal *j*), the CRIO modeling tool utilizes a standard Flegg formulation as follows:

$$FLQ_{ij} = \left(\frac{\frac{J_i^R}{J_j^R}}{\frac{J_i^N}{J_j^N}} \right) \times \left(\log_2 \left(1 + \frac{\Sigma J^R}{\Sigma J^N} \right) \right)^\gamma$$

Where the CILQ (left-hand) multiplicative term has a limiting value of 1.0, and:

J = jobs

i = row industry

j = column industry

R = region

N = nation

γ = calibrating power term

For diagonal elements (*i.e.*, where *i* equals *j*) and for the household column, we follow Flegg and apply a standard simple location quotient, again with a ceiling of 1.0:

$$FLQ_{ij} = \left(\frac{\frac{J_i^R}{\Sigma J^R}}{\frac{J_i^N}{\Sigma J^N}} \right) \times \left(\log_2 \left(1 + \frac{\Sigma J^R}{\Sigma J^N} \right) \right)^\gamma$$

One final model element needs regionalizing, and that is the household row. The regionalizing term for the household row indicates the proportion of total labour requirements obtained from workers residing in the region. Lacking region specific data on commuting, we assume a household row regionalizing factor of 75%, thereby assuming that 25% of labour needs are provided by regional in-commuters.

Consider next the calibrating power term gamma shown in the Flegg equations above. The most recent empirical tests of the Flegg LQ approach suggest an optimal value for the calibrating term equal to roughly 0.2,³³ although Emsi comparisons of the Canada Flegg model and the Emsi IO US model suggest a value of 0.1 is better suited for the more dispersed regional economies of North America.

Let us return again to our illustrative FLQ regionalizing process. Based on the formulation presented above, we create a separate matrix of FLQs for all indus-

33 Flegg et al., "Regional Input-Output Tables and the FLQ Formula," 703-721.

tries in a region. For example, the cell containing the FLQ of .12 in Table A5.3 was calculated by using Industry 1 as the row industry (or i in the Flegg equation above) and Industry 2 as the column industry (or j in the Flegg equation above). The FLQ is interpreted as measuring the proportion of regional requirements of input i by sector j that is satisfied by firms located in the region. In our example above, 12% of Industry 2's demand for the output of Industry 1 are satisfied by local Industry 1. The remaining 88% (= 100% - 12%) of demand is assumed to be imported. On this definition, the matrix of FLQ's can be interpreted as a matrix of "regional trade coefficients."

TABLE A5.3: SAMPLE FLQ MATRIX

	Industry 1	Industry 2	...	Households
Industry 1	.88	.1247
Industry 2	.98	109
...
Households	.20	.76	...	1

The "regionalizing" process is completed by computing the element-by-element product of region-based FLQs, interpreted as regional trade coefficients, and national input-output coefficients, interpreted as technical coefficients. The result is a matrix of regional input-output coefficients.

Consider the mathematics. The regional FLQ matrix is constructed with the same dimensions as the national A matrix. Industries that do not exist in the region appear in the Flegg matrix with zero rows and zero columns. The element-by-element product appears then as follows:

$$A^R = A^N \circ F^R$$

Where:

\circ = Hadamard (element-by-element) multiplication

A^N = national IO coefficients matrix (*i.e.*, technical coefficients)

F^R = FLQ matrix

A^R = regional IO coefficients matrix

Estimating regional input-output multiplier effects

The most important use of regional input-output models is the estimation of regional multiplier effects. Regional IO multiplier analysis has a long tradition in regional science, and is nowadays viewed as the exclusive method for estimating regional multiplier effects. Following standard practice, input-output multiplier

effects are estimated via the regional IO multiplier matrix derived from identity matrix I and the regional IO coefficients matrix A^R as follows:

$$B^R = (I - A^R)^{-1}$$

Where:

B^R = multiplier matrix for region R

Given a unit change (*i.e.*, dollar change) in column industry activity (called the “initial” change), multiplier matrix elements show the resulting direct, indirect and induced change in row industry sales. “Direct” change refers to resulting input purchases. “Indirect” change refers to additional input purchases created as a result of the direct purchases. “Induced” change refers to sales resulting from the spending of newly-created household incomes. Job and income effects are obtained by computing jobs-to-sales and income-to-sales ratios and applying these to regional multiplier matrix elements.

Appendix 6: Value per Credit and the Mincer Function

Two key components in determining the economic impact and return on investment of education 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.

Value per credit

Typically, the educational achievements of students are marked by the credentials they earn. However, not all students who attended AU in the 2017-18 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 course load, measured in terms of credits. This approach by correlation should be discounted by 10%.³⁴ As such, we reduce the marginal differences between education levels by 10%.

Next we map the credit production of AU's FY 2017-18 student population to the education ladder. Table 1.2 provides information on the credit production of AU's students broken out by educational achievement. In total, students completed 36,059 credits during the analysis year. We map each of these credits to the education ladder depending on the students' education level and the average number of credits they completed during the year. For example, bachelor's degree graduates are allocated to the stage between the high school diploma and the bachelor's degree, and the average number of credits they complete informs the shape of the distribution curve used to spread out their total credit production within that stage of the progression.

The sum product of the credits earned at each step within the education ladder and their corresponding value yields the students' aggregate annual increase in earnings (ΔE), as shown in the following equation:

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

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 credits completed at step i .

34 David Card, "The causal effect of education on earnings," *Handbook of Labor Economics* 3 (1999): 1801-1863. Card acknowledges that ability is unobservable and the instrumental variable techniques for measuring the ability bias are different. He concludes that the "best available" evidence suggests a "small upward bias (on the order of 10%)."

Table A6.1 displays the result for students' aggregate annual increase in earnings (ΔE), a total of \$7 million. By dividing this value by the students' total production of 36,059 credits during the analysis year, we derive an overall average value of \$195 per credit. This allows us to see the benefits to all students who attended AU, not just those who earned a credential.

To calculate the value per credit, we first determine how many credits are required to complete each education level. For example, assuming that one full-time equivalent (FTE) is equal to 30 credits, a student generally completes 60 credits (or two full-load years' worth of study) in order to move from a high school diploma to a two-year diploma, another 60 credits to move from a two-year diploma to a bachelor's degree, and so on. This progression of credits 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 credits in the education ladder based on the wage differentials presented in Table 1.4.³⁵ For example, the difference in earnings between a high school diploma and a bachelor's degree is \$25,600. We spread this \$25,600 wage differential across the 120 credits that occur between the high school diploma and the bachelor's degree, applying a ceremonial "boost" to the last credit in the stage to mark the achievement of the degree.³⁶ We repeat this process for each education level in the ladder.

TABLE A6.1: AGGREGATE ANNUAL INCREASE IN EARNINGS OF AU STUDENTS AND AVERAGE VALUE PER CREDIT

Aggregate annual increase in earnings	\$7,046,502
Total credits in FY 2017-18*	36,059
Average value per credit	\$195

* Excludes the credit production of leisure students.
Source: Emsi impact model.

35 The value per CHE is different between the economic impact analysis and the investment analysis. The economic impact analysis uses the region as its background, and therefore uses regional earnings to calculate the value per CHE. The investment analysis uses the province as its backdrop and, therefore, uses province earnings. The methodology outlined in this appendix will use regional earnings; however, the same methodology is followed for the investment analysis when province earnings are used.

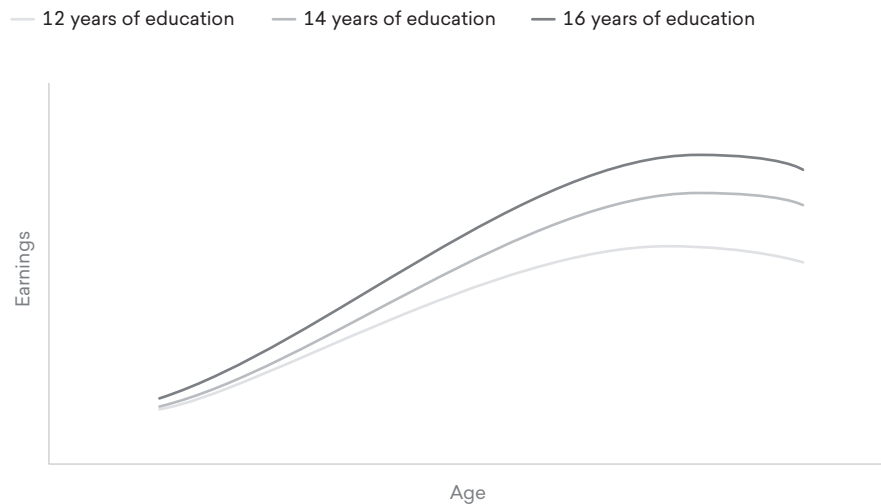
36 Economic theory holds that workers that acquire education credentials send a signal to employers about their ability level. This phenomenon is commonly known as the "sheepskin" or "signaling" effect. The ceremonial boosts applied to the achievement of degrees in the Emsi impact model are derived from Ana Ferrer and Craig Riddell, "The role of credentials in the Canadian labour market," *Canadian Journal of Economics* 35, no. 4 (November 2002): 879-905.

Mincer Function

The \$195 value per credit in Table A6.1 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 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.³⁷ 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 labour economics. Those critical of the Mincer function point to several unobserved factors such as ability, socioeconomic status, and family background also positively correlate with higher earnings. Failure to account for these factors results in what is known as an “ability bias.” Research by Card (1999) 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%.

Figure A5.1 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, individuals with higher levels of education reach

FIGURE A5.1: LIFECYCLE CHANGE IN EARNINGS



37 See Mincer, 1958 and Jacob Mincer, “Schooling, Experience and Earnings” (New York: National Bureau of Economic Research, 1974). See also Gary S. Becker, *Human Capital: a Theoretical Analysis with Specific Reference to Education* (New York: Columbia College Press for NBER, 1964).

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 Chapter 2, we use the slope of the curve in Mincer's earnings function to condition the \$195 value per credit to the students' age and work experience.³⁸ To the students just starting their career during the analysis year, we apply a lower value per credit; to the students in the latter half or approaching the end of their careers we apply a higher value per credit. The original \$195 value per credit applies only to the credit production of students precisely at the midpoint of their careers during the analysis year.

In Chapter 3, we again apply the Mincer function, this time to project the benefits stream of AU's FY 2017-18 student population into the future. Here too the value per credit 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.

Conclusion

This appendix demonstrates the significance of the value per credit and the Mincer function in determining the initial effect of alumni on the regional economy in Chapter 2 and the students' return on their educational investment in 3. Both chapters provide further discussion on the role that the students' credit production and corresponding increase in earnings plays in calculating the study outcomes.

38 The Mincer equation is computed based on estimated coefficients presented in Robert J. Willis, "Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Function" in *Handbook of Labor Economics*, Vol. 1 (Amsterdam: Elsevier Science Publishers, 1986): 525–602. These are adjusted to current year dollars in the usual fashion by applying the GRP implicit price deflator. The function does not factor in temporary economic volatility, such as high growth periods or recessions. In the long run, however, the Mincer function is a reasonable predictor.

Appendix 7: Alternative Education Variable

In a scenario where AU does not exist, some of its students would still be able to avail themselves of an alternative comparable education. These students create benefits in the region even in the absence of the University. 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 AU. Considering the existence of various other academic institutions surrounding AU, we must assume that a portion of the students could find alternative educations and either remain in or return to Sault Ste. Marie. For example, some students may participate in online programs while remaining in the region. Others may attend an out-of-region institution and return to Sault Ste. Marie upon completing their studies. For these students – who would have found an alternative education and produced benefits in Sault Ste. Marie regardless of the presence of AU – we discount the benefits attributed to AU. An important distinction must be made here: the benefits from students who would find alternative educations outside the region and not return to Sault Ste. Marie are *not* discounted. Because these benefits would not occur in the region without the presence of AU, they must be included.

In the absence of AU, we assume 15% of students attending AU would find alternative education opportunities and remain in or return to Sault Ste. Marie. We account for this by discounting the alumni impact, the benefits to taxpayers, and the benefits to society in Ontario in Chapters 2 and 3 by 15%. In other words, we assume 15% of the benefits created by students attending AU would have occurred anyways in the counterfactual scenario where AU does not exist. A sensitivity analysis of this adjustment is presented in Appendix 1.

Appendix 8: Overview of Investment Analysis Measures

This appendix provides context to the investment analysis results using the simple hypothetical example summarized in Table A8.1 below. The table shows the projected benefits and costs for a single student over time and associated investment analysis results.³⁹

TABLE A8.1: 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	Benefit-cost ratio	Return on investment	Payback period (no. of years)
18.0%	1.7	0.7	4.2

Assumptions are as follows:

- Benefits and costs are projected out ten years into the future (Column 1).
- The student attends the institution for one year, and the cost of tuition is \$1,500 (Column 2).
- Earnings forgone while attending university for one year (opportunity cost) come to \$20,000 (Column 3).

³⁹ Note that this is a hypothetical example. The numbers used are not based on data collected from an existing institution.

- 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 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, the return on investment, and the payback period. Each of these is briefly explained below in the context of the cash flow numbers presented in Table A8.1.

Net present value

The student in Table A8.1 can choose either to attend university or to forgo post-secondary education and maintain their present employment. If they decide 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, their earnings 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 A8.1, 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 earnings 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.⁴⁰

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 ten, 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 ten years. An “economically rational” person would, therefore, be equally satisfied receiving \$3,377 today or \$5,000

⁴⁰ 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.

ten 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 A8.1, 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. 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.

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 A8.1. 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% in fact, as indicated in Table A8.1. Or, if a discount rate of 18% 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% 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%, higher earnings of \$5,000 per year for the next nine years will earn back all investments of \$21,500 made plus pay 18% 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% is far higher than 4%. It may be concluded, therefore, that the investment in this case is solid. Alternatively, comparing the 18% rate of return to the long-term 10% 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).

A word of caution—the approach for calculating the internal rate of return can sometimes generate wild or unbelievable results that defy the imagination.

Technically, the approach requires at least one negative cash flow to offset all subsequent positive flows. For example, if the student works full-time while attending university, the opportunity cost of time would be much lower. The only out-of-pocket cost would be the \$1,500 paid for tuition. In this case, it would still be possible to compute the internal rate of return, but it would be a staggering 333% because only a negative \$1,500 cash flow would be offsetting nine subsequent years of \$5,000 worth of higher earnings. Although the 333% return would technically be correct, it would not be consistent with the conventional understanding of returns expressed as percentages.

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% 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% 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.

Return on investment

The return on investment is similar to the benefit-cost ratio, except that it measures the net (as opposed to gross) benefits of an investment relative to the investment's cost. In terms of dollars, the return on investment represents the benefits received over and above the original investment. It is calculated simply by dividing the net present value of the benefits by the total costs of the investment, or $\$15,080 \div \$21,500 = 0.7$ (again based on the 4% discount rate). This means that the investment will return the original cost of the investment plus an additional \$.70 for every dollar invested. A positive value for the return on investment measure (*i.e.*, any value above 0) indicates that the investment has been profitable.

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 A8.1, 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 university. 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 9: Shutdown Point

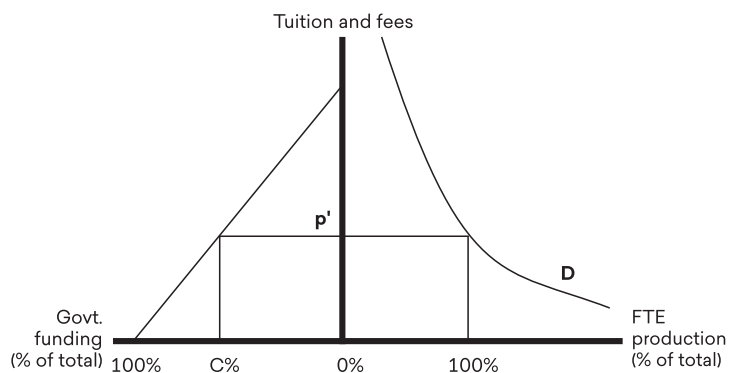
The investment analysis in Chapter 3 weighs the benefits generated by the University against the provincial taxpayer funding that the University receives to support its operations. An important part of this analysis is factoring out the benefits that the University would have been able to generate anyway, even without provincial taxpayer support. This adjustment is used to establish a direct link between what taxpayers pay and what they receive in return. If the University is able to generate benefits without provincial taxpayer support, then it would not be a true investment.⁴¹

The overall approach includes a sub-model that simulates the effect on student enrollment if the University loses its provincial funding and has to raise student tuition and fees in order to stay open. If the University can still operate without provincial support, then any benefits it generates at that level are discounted from total benefit estimates. If the simulation indicates that the University cannot stay open, however, then benefits are directly linked to costs, and no discounting applies. This appendix documents the underlying theory behind these adjustments.

Provincial government support versus student demand for education

Figure A9.1 presents a simple model of student demand and provincial government support. The right side of the graph is a standard demand curve (D) showing student enrollment as a function of student tuition and fees. Enrollment

FIGURE A9.1

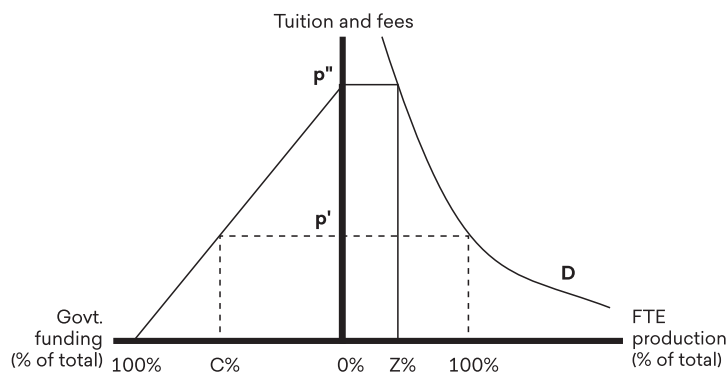


41 Of course, as public training providers, AU would not be permitted to continue without public funding, so the situation in which it would lose all provincial support is entirely hypothetical. The purpose of the adjustment factor is to examine AU in standard investment analysis terms by netting out any benefits it may be able to generate that are not directly linked to the costs of supporting them.

is measured in terms of total full-time equivalents (FTEs) and expressed as a percentage of the University's current FTE production. Current student tuition and fees are represented by p' , and provincial government support covers $C\%$ of all costs. At this point in the analysis, it is assumed that the University has only two sources of revenues: 1) student tuition and fees and 2) provincial government support.

Figure A9.2 shows another important reference point in the model—where provincial government support is 0%, student tuition and fees are increased to p'' , and the FTE production is at $Z\%$ (less than 100%). The reduction in FTEs reflects the price elasticity of the students' demand for education, *i.e.*, the extent to which the students' decision to attend university is affected by the change in tuition and fees. Ignoring for the moment those issues concerning the University's minimum operating scale (considered below in the section called "Shutdown Point"), the implication for the investment analysis is that benefits to provincial government must be adjusted to net out the benefits that the University can provide absent provincial government support, represented as $Z\%$ of the University's current FTE production in Figure A9.2.

FIGURE A9.2



To clarify the argument, it is useful to consider the role of enrollment in the larger benefit-cost model. Let B equal the benefits attributable to provincial government support. The analysis derives all benefits as a function of student enrollment, measured in terms of FTEs produced. For consistency with the graphs in this appendix, B is expressed as a function of the percent of the University's current FTE production. Equation 1 is thus as follows:

$$1) \quad B = B(100\%)$$

This reflects the total benefits generated by enrollments at their current levels.

Consider benefits now with reference to Figure A9.2. The point at which provincial government support is zero nonetheless provides for $Z\%$ (less than 100%) of the current enrollment, and benefits are symbolically indicated by the following equation:

$$2) \quad B = B(Z\%)$$

Inasmuch as the benefits in equation 2 occur with or without provincial government support, the benefits appropriately attributed to provincial government support are given by equation 3 as follows:

$$3) \quad B = B(100\%) - B(Z\%)$$

Calculating benefits at the shutdown point

Post-secondary institutions cease to operate when the revenue they receive from the quantity of education demanded is insufficient to justify their continued operations. This is commonly known in economics as the shutdown point. The shutdown point is introduced graphically in Figure A9.3 as $S\%$. The location of point $S\%$ indicates that the University can operate at an even lower enrollment level than $Z\%$ (the point at which the University receives zero provincial government funding). Provincial government support at point $S\%$ is still zero, and student tuition and fees have been raised to p''' . Provincial support is thus credited with the benefits given by equation 3, or $B = B(100\%) - B(Z\%)$. With student tuition and fees still higher than p''' , the University would no longer be able to attract enough students to keep the doors open, and it would shut down.

FIGURE A9.3

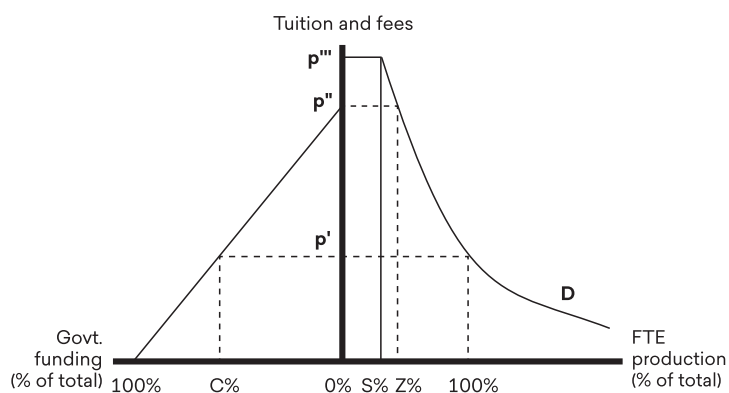
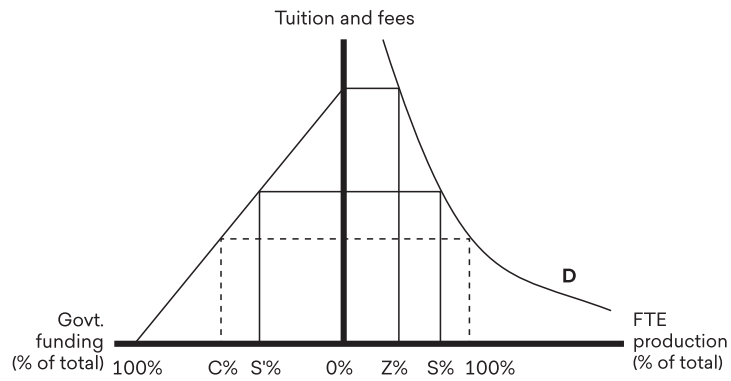


Figure A9.4 illustrates yet another scenario. Here the shutdown point occurs at a level of FTE production greater than $Z\%$ (the level of zero provincial government support), meaning some minimum level of provincial government support is needed for the University to operate at all. This minimum portion of

overall funding is indicated by S' % on the left side of the chart, and as before, the shutdown point is indicated by S % on the right side of chart. In this case, provincial government support is appropriately credited with all the benefits generated by the University's FTE production, or $B = B(100\%)$.

FIGURE A9.4



Appendix 10: Social Externalities

Education has a predictable and positive effect on a diverse array of social benefits. These, when quantified in dollar terms, represent significant social savings that directly benefit society as a whole, including taxpayers. In this appendix, we discuss the following three main benefit categories: 1) improved health, 2) reductions in crime, and 3) reductions in income assistance.

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.

Health

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

Smoking

Figure A9.1 shows the prevalence of cigarette smoking among adults aged 15 years and over, based on data provided by the Health Canada Canadian Tobacco Use Monitoring Survey (CTUMS). As indicated, the percent of persons who smoke begins to decline beyond the level of less than high school.

The Health Canada CTUMS also reports the percentage of adults who are current smokers by province. We use this information to create an index value by which we adjust the national prevalence data on smoking to each province. For example, 16.3% of Ontario's adults were smokers in 2011, relative to 17.3% for the nation. We thus apply a scalar of 0.9 to the national probabilities of smoking in order to adjust them to the province of Ontario.

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 social costs, including healthcare expenditures for treatment, prevention, and support; workplace losses due to reduced worker productivity; and other effects.

FIGURE A9.1: PREVALENCE OF SMOKING BY EDUCATION LEVEL

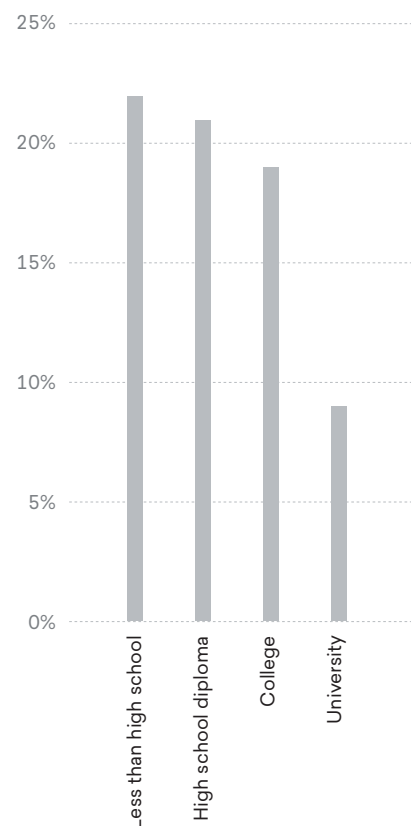


Figure A9.2 compares the prevalence rate of heavy drinking among males and females aged 15 at the less than secondary level to the prevalence rate at the university degree level, based on data provided by Statistics Canada and the Canadian Centre on Substance Abuse Canadian Addiction Survey (CAS). These statistics give an indication of the correlation between education and the reduced probability of alcoholism. As indicated, heavy drinking falls from a 24.0% prevalence rate among males at a less than secondary level to a 18.2% prevalence rate among males with a university degree. Similarly, heavy drinking among females ranges from a 10.2% prevalence rate at the less than secondary level to a 7.8% prevalence rate at the university degree level.

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 economic burden of obesity consists of both the direct costs to the health care system and the indirect costs to productivity, as defined and measured by a joint report from the Public Health Agency of Canada and the Canadian Institute of Health Information.⁴²

Figure A9.3 shows the prevalence of obesity among adults aged 18 years and over by education and sex, based on data provided by Statistics Canada. As indicated, university graduates are less likely to be obese than individuals with a high school diploma. However, the prevalence of obesity among females with some college is actually greater than females with no more than a high school diploma. In general, though, obesity tends to decline with increasing levels of education.

Mental illness

The economic burden of mental health problems in Canada includes the cost of treatment and lost productivity in the workplace. Figure A9.4 summarizes the prevalence rate among adults aged 15 years and older that perceive their mental health to be fair or poor by education level, based on combined data from Statistics Canada and the Government of Canada. As shown, college graduates are less likely to suffer from fair or poor mental health than someone with a secondary or less than secondary education, with the prevalence of mental illness being the highest among people without a high school diploma.

FIGURE A9.2: PREVALENCE OF HEAVY DRINKING BY SEX AND EDUCATION LEVEL

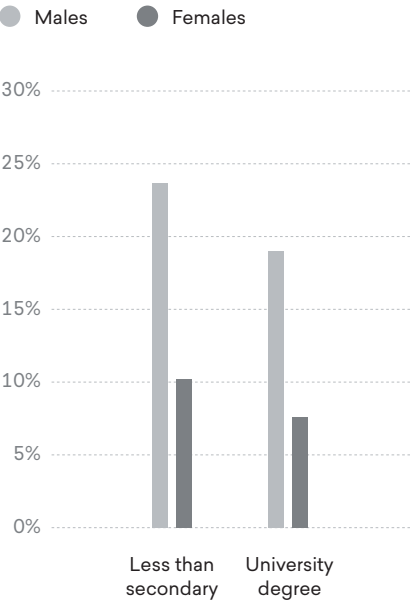
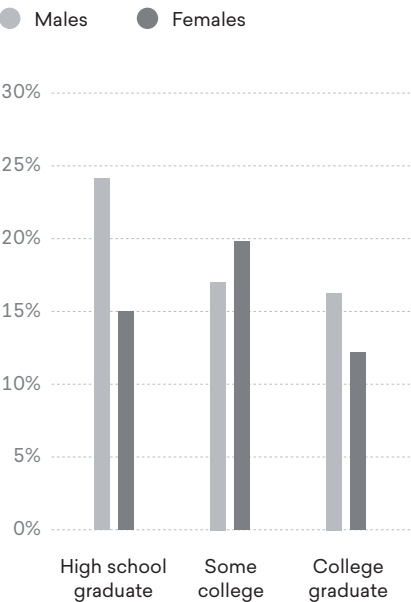
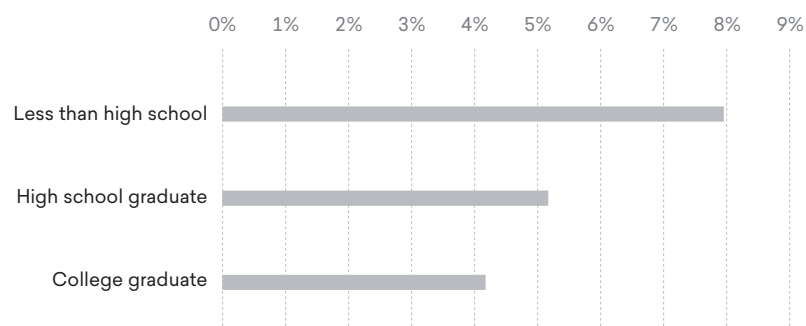


FIGURE A9.3: PREVALENCE OF OBESITY BY EDUCATION LEVEL



42 Public Health Agency of Canada and the Canadian Institute for Health Information, *Obesity in Canada*. https://secure.cihi.ca/free_products/Obesity_in_canada_2011_en.pdf.

FIGURE A9.4: PREVALENCE OF FAIR OR POOR MENTAL HEALTH BY EDUCATION LEVEL

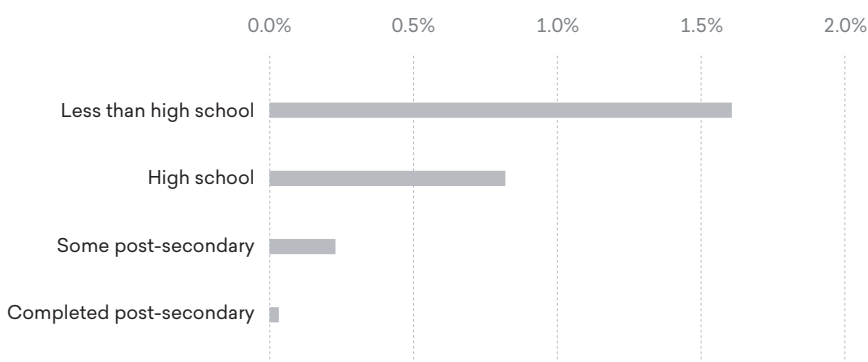


Crime

As people reach 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 A9.5 displays the probability that an individual will be placed in custody by education level. Data are derived from the breakdown of adults in correctional services by province as provided by combined data from Statistics Canada and the Canadian Centre for Justice Statistics, divided by the total adult population. As indicated, the probability of being placed in custody drops on a sliding scale as education levels rise.

FIGURE A9.5: PERCENT OF ADULT POPULATION THAT ARE IN CUSTODY BY EDUCATION LEVEL



Victim costs comprise health care, productivity losses, stolen/damaged property, and third-party costs (including victim services). 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 tangible out-of-pocket costs, while the higher end includes intangible costs related to pain and suffering.

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

Income assistance

Statistics show that as education levels increase, the unemployment rate declines, as shown in Figure A9.6. These data are provided by the Statistics Canada Labour Force Survey (LFS). Unemployment rates range from 13% for those with less than a high school diploma to 5% for those at the bachelor's degree level.

Figure A9.7 relates the breakdown of employment-related social assistance recipients by gender and education level, derived from data provided by Statistics Canada, the Centre for Urban and Community Studies, and the Federal-Provincial-Territorial Directors of Income Support. As shown, the demographic characteristics of social assistance 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.

FIGURE A9.6: UNEMPLOYMENT RATES BY EDUCATION LEVEL

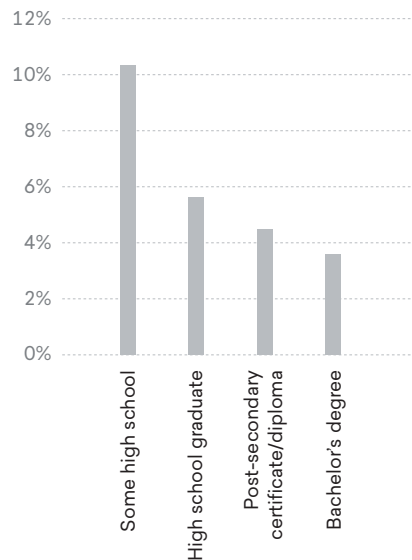


FIGURE A9.7: PROBABILITY OF CLAIMING EMPLOYMENT-RELATED SOCIAL ASSISTANCE BY GENDER AND EDUCATION LEVEL

