

UCLA's Economic Impact on Southern California: An Engine for the Economy

Executive Summary



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*Economic Vitality,
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Executive Summary

In an economy where more than 90 percent of all firms have fewer than 100 employees, UCLA – with 27,124 employees – stands out as **the 7th largest employer in the five-county Southern California area**. With 36,611 students and direct spending in excess of \$3.9 billion, UCLA has a significant economic impact on the city and county of Los Angeles and the state of California. The full impact is often overlooked, however, because of the size of the region. The five-county Southern California area is home to more people than the entire state of Florida. If it were a separate country, Southern California would have the 15th largest economy in the world. This study highlights UCLA's unique contributions to this remarkable economy, focusing on the dollars spent, jobs created and taxes paid during fiscal year 2005-2006 (July 1, 2005 through June 30, 2006).

University-related activities in **fiscal year 2005-2006** produced an estimated **total economic impact of at least \$9.34 billion** on the Southern California regional economy. UCLA-related economic activity **supported 70,000 full-time equivalent (FTE) jobs** in the region, including those people employed directly by the university. UCLA employees earned \$1.95 billion in wages and salaries. Adding the indirect workers in Southern California raises the wage total to \$3.52 billion.

If we include the impact on the rest of the state, economic activity supported by UCLA-related spending was \$9.89 billion. The statewide impact is higher than the regional impact for two reasons: First, spending in Southern California often creates economic activity outside the region, and these additional indirect impacts are captured when we look at the entire state. Second, some of the direct UCLA-related spending takes place elsewhere in the state, and thus is correctly included in the statewide, but not the regional, impact. Applying this logic, we found that UCLA-related economic activity sustains a further 10,600 full-time equivalent jobs outside the region, bringing the statewide employment total to 80,600. Adding the wages of the additional 10,600 workers to the regional total brings statewide wages related to UCLA to \$3.95 billion.

A Pattern of Growth

UCLA's impact on the regional economy has been estimated four times, including this report. The first study was conducted by KPMG in 1990 and covered fiscal year 1987-1988 (FY1987-88). Since then, the LAEDC has conducted three such studies, analyzing the university's impact during fiscal years ending in 2000, 2003, and 2006. The table on the next page summarizes the key findings of each analysis.

UCLA 2005-2006 Economic Impact

UCLA Regional Economic Impact (Billions of Dollars, FTE Jobs)				
	KMPG Study	LAEDC Study (2001)	LAEDC Study (2004)	LAEDC Study (2007)
Data (Fiscal Year)	1987-1988	1999-2000	2002-2003	2005-2006
UCLA Budget	\$1.23	\$2.66	\$3.11	\$3.59
UCLA Employment	20,100	26,617	27,352	27,124
Total Employment	44,920	54,000	65,800	70,000
UCLA-Related Spending	\$1.46	\$3.11	\$3.57	\$3.92
Total Economic Output	\$2.34	\$4.98	\$6.07	\$9.34

UCLA has grown considerably in size and impact during this sixteen-year period of time. The university's budget was \$1.23 billion in FY1987-88 and swelled to \$3.59 billion in FY2005-06, about 2.9 times the earlier level. The number of UCLA employees increased from 20,100 in FY1987-88 to 27,124 in FY2005-06, an increase of 35%. Approximately 45,000 jobs were supported directly or indirectly by UCLA-related activity during FY1987-88. The total number of jobs supported grew to 70,000 jobs by FY2005-06, an increase of 56% from FY1987-88.

UCLA-related spending was about \$1.46 billion in FY1987-88 and grew to \$3.92 billion in FY2005-06. [University spending (for employee wages and salaries, operational purchases, and capital expenditure) accounts for the lion's share of these figures, but the concept also includes amounts spent by visitors to the university plus amounts spent outside the university by students.]

Estimated total economic output grew from \$2.34 billion in FY1987-88 to \$9.34 billion in FY2005-06, an increase of 295%. Most of the expansion in total economic output was simply due to the increase in UCLA's economic activity that was made possible by its growing budget. Some of the growth in the university's economic output, however, was due to inflation, as prices rose by more than 70% over the 16-year period. Further, some of the increase was due to methodological differences between the four studies, particularly the last two.¹ Therefore, the increase in estimated economic output should be treated as indicative of trends over the period covered rather than exact changes.

With its record of steady growth, UCLA has played an important stabilizing role in the regional economy, especially during recession periods like the early 1990s and 2001. UCLA-related economic output swelled from \$2.34 billion to \$9.34 billion between the fiscal years ending in 1998 and 2006, for a compounded average annual growth rate of about 8% per

¹ The significant improvement in economic output in FY2005-06 is attributable to: increased University operating expenses; higher estimated student budgets; higher average income levels in Los Angeles and California [which affected 53,000 indirect jobs]; and methodological refinements to LAEDC economic impact models, which particularly affected the economic output estimates. LAEDC believes the FY2005-06 estimates more fully capture the true amount of economic activity generated by UCLA.

year. This pace was faster than growth in the regional economy, which grew at an average rate of 5.1% per year over the same period.

Approach

The LAEDC divided UCLA-related economic activity into five categories of spending: wages and salaries, operations, capital expenditures, spending by UCLA students, and spending by visitors to UCLA. For each, we have calculated the job, wage, and tax implications of the spending linked to UCLA. Treating each spending stream separately allows us to more fully capture the impact of the university but avoid double counting.

Note that in focusing on UCLA-related spending directed outside the university, we have excluded all payments made to the University of California Regents or UCLA itself. The economic impact *on the regional and state economies* takes place when UCLA redeploys these funds as payments for salaries, purchases, and construction.

At the LAEDC, our estimates typically represent the lower bound of possible economic impact. Our results tend to be understated because of data limitations and constraints inherent in economic impact analysis work. Furthermore, we have treated UCLA as a freestanding institution and as such we have not included in the statewide results a proportional share of the administration of the University of California system. Accordingly, this report should be read with an implied “not less than” or “at least” preceding all employment and tax impact estimates.

Spending Money and Creating Jobs

The LAEDC estimated the regional and statewide economic activity related to UCLA. Both the regional and statewide impacts are underpinned by \$3.9 billion in *direct* UCLA-related expenditures, including spending by students, visitors, employees, and the university itself. The additional, indirect economic activity is driven by persons and firms whose incomes were increased because they supplied goods and services to the university, students, visitors, vendors, and so on. Below, we describe separately the regional and state impacts of the five UCLA-related spending streams.

Employees: There were 27,124 FTE employees on the University of California, Los Angeles payroll in fiscal year 2005-2006, working in all manner of jobs ranging from teaching and research staff, administrators and clerical staff to librarians, doctors, nurses and food service workers. Together, these employees earned wages and salaries of \$1.95 billion. Spending by UCLA employees generated an additional 19,800 non-university jobs in Southern California with an estimated payroll of \$644 million. Thus, total regional employment sustained by UCLA’s payment of wages and salaries, together with the employees’ spending of those wages, comes to 46,900 workers. The associated economic output associated with UCLA employees’ spending was \$4.53 billion in Southern California.

Outside the region, but still within California, UCLA employee spending sustained an additional 3,700 FTE jobs beyond those in Southern California. The payroll of these additional jobs is estimated at \$131 million. Thus, UCLA’s payment of wages and salaries, together with the employees’ spending of those wages, sustained 50,600 jobs statewide with

wages of \$2.72 billion, including those of the university's employees themselves. The associated statewide economic output, which includes the \$4.53 billion in Southern California, was \$4.66 billion.

Purchases: UCLA's purchases of goods and services for ongoing operations are the second largest component of university spending after its employee payroll and related expenses. In fiscal year 2005-2006, UCLA spent a total of almost \$1.1 billion on supplies and materials, utilities, and "other expenses," primarily assorted services, outside the university. The university's purchases sustained 9,700 jobs in Southern California, with wages of \$493 million. The associated regional economic output was \$2.65 billion.

Outside the region, but still within California, UCLA purchases for operations sustained an additional 3,500 full-time equivalent jobs, with a payroll of \$177 million. This brings to 13,200 the total number of FTE positions statewide sustained by UCLA's direct purchases of goods and services for operations in 2005-2006. The workers who held these positions earned an estimated \$670 million. The associated economic output statewide was \$2.88 billion, including the \$2.65 billion in Southern California.

Capital Expenditures: Fiscal year 2005-2006 saw the university invest \$435 million in capital expenditures. UCLA spent \$345 million on ongoing construction projects and building improvements, \$68 million for equipment, and \$23 million for libraries and special collections. UCLA's capital expenditures sustained 5,500 jobs in Southern California with a combined payroll of \$221 million. The associated regional economic output was \$839 million.

Outside the region, but still within the state, UCLA capital expenditures sustained an additional 2,200 FTE jobs beyond the 5,500 in Southern California. The additional workers earned estimated wages of \$83 million. Statewide, therefore, UCLA's capital expenditures in 2005-2006 supported 7,700 workers outside the university, with an estimated payroll of \$306 million. The associated statewide economic output was \$1.40 billion, including the \$1.28 billion in Southern California.

Student Spending: During the regular academic (nine-month) year, there were 36,611 students at the University of California, Los Angeles: 25,432 undergraduates, and 11,179 graduate students, interns, and residents. Together, these students spent more than \$423 million during the 2005-2006 academic year on goods and services purchased from sources other than UCLA. Items such as non-university housing, groceries, restaurants, entertainment, and transportation were included in the total, but tuition, fees, and other items payable to the Regents of the University of California were not. In Southern California, this non-university spending by UCLA students sustained 6,600 full-time equivalent jobs with a combined payroll of \$178 million. The associated regional economic output was \$788 million.

Outside the region, the indirect effects of non-university spending by UCLA students supported an additional 1,300 FTE jobs with a payroll of \$41 million. Thus, statewide non-university spending by UCLA students in 2005-2006 supported 7,900 workers outside the university, with an estimated payroll of \$219 million. The associated statewide economic output was \$840 million, including the \$788 million in Southern California.

Visitor Spending: UCLA attracted more than 2 million visitors to the campus during the 2005-2006 academic year. (For comparison, the Los Angeles Lakers' home games had attendance of almost 770,000 in 2004-2005, and the Los Angeles Dodgers had an attendance of 3.7 million during their 2006 season.) Visitors to UCLA injected at least \$50 million into the local economy beyond what they paid to the Regents of the University of California for ticket admissions, parking, conference fees, and lodging in university housing. The average estimated spending per visitor, at just under \$24, seems low because most local visitors spend very little; out-of-town visitors, though fewer in number, account for most of the spending. Also, we have not included payments made to UCLA. [These funds are not ignored, however, even though they are not counted here. Their impact shows up when UCLA "recycles" the money by using it to make purchases in the local economy, and it is therefore counted elsewhere.] The \$50 million in direct visitor spending supported 1,200 jobs in Southern California with combined earnings of almost \$29 million. The associated regional economic output was \$103 million.

Outside the region, non-university spending by UCLA visitors supported an additional 100 jobs with a payroll of \$5.7 million. Statewide, non-university spending by UCLA visitors in 2005-2006 supported 1,300 workers outside the university, with an estimated payroll of over \$34 million. The associated statewide economic output was \$110 million, including the \$103 million in Southern California.

Government Revenue Impacts

Most of the income and spending generated by UCLA-related activities is subject to taxation by the federal government as well as state and municipal governments in California. The LAEDC estimated the state and federal income tax revenues associated with earnings of UCLA's employees and also of all indirect jobholders located within the state's borders. In addition, the LAEDC estimated sales taxes paid as a result of the university's purchases; employee, student, and visitor spending; and spending by indirect workers. Total taxes generated from income, sales, and use taxes amounted to slightly under \$1.2 billion.

Federal Tax Revenues: The federal government collects income taxes from the holders of jobs sustained by UCLA-related economic activity, including the university's employees. In fiscal year 2005-2006, we estimate the federal government collected \$545 million in income taxes and \$276 million from FICA taxes on \$3.95 billion in UCLA-related wages. Thus, UCLA-related activity returned \$821 million to the federal government in the form of income and FICA taxes.

California Tax Revenues: The State of California collects income taxes from the holders of jobs sustained by UCLA-related economic activity, including the university's employees. In fiscal year 2005-2006, we estimate the state collected \$178 million in income taxes and \$39 million from SUI/SDI taxes on \$3.95 billion in UCLA-related wages. In addition, UCLA paid sales and use taxes on some of its operating purchases and capital expenditures, and further sales taxes were paid on purchases made by firms and workers supported by UCLA-related economic activity, UCLA students, and visitors to UCLA. We estimate that the state's share of these sales and use taxes was \$105 million. Thus, UCLA-related activity returned \$322 million to the state in the form of income and sales taxes.

County Governments' Tax Revenues: County governments' tax revenues include both the county share of the sales tax plus the county-level transportation authority sales taxes. [Note that the county-level transportation component of the sales tax – two 0.5 percentage point surcharges in Los Angeles County – is not included in use taxes.] Sales and use taxes generated by economic activity related to UCLA were paid to counties throughout California, depending on the location in which the taxable purchases were made. Most of the \$22 million statewide in UCLA-related sales taxes payable to county governments went to Los Angeles County.

Municipal Governments' Tax Revenues: Municipal governments get a financial boost from economic activity related to UCLA in two ways: First, city governments collect the equivalent of one percent of taxable purchases in their jurisdictions. Second, visitors who come to the university pay a city-levied transient occupancy tax (TOT tax) to the hotels where they stay during their visit. Sales taxes generated by economic activity related to UCLA were paid to cities throughout California, depending on the location in which the taxable purchases were made. Transient occupancy taxes went to the cities with hotels patronized by UCLA visitors. Most of the \$20 million statewide in UCLA-related municipal sales, use, and hotel taxes payable went to the City of Los Angeles.

State Funding v. Revenues: The University of California, Los Angeles is a public institution of higher learning. Yet, the state provides only 17.4 percent of UCLA's revenue. In 2005-2006, the State of California contributed \$624.2 million to UCLA. Regional economic activity linked to the university that year was valued at \$9.24 billion, or 15 times the value of the state's contribution. Statewide, the effect was even greater: UCLA-related economic activity was \$9.782 billion, or 16 times the state's contribution. All of this economic activity generated considerable tax revenue for the state. State income and sales tax revenues from UCLA-related economic activity were at least \$322 million, and probably more. Thus, it was as if the state received a rebate of at least 52 cents on every dollar of funding it gave to UCLA. This lowered the net cost to the state of its nominal \$624-million contribution to just \$302 million.

Technology Transfer

From vital pioneering work on the Internet to the development of the nicotine patch to some of the latest advances in cancer treatment and sensor technology, UCLA has earned a reputation as one of the world's foremost research universities. The National Science Foundation's latest report (2007) ranks UCLA 4th in the US for academic R&D spending.

The UCLA Office of Intellectual Property Administration currently has 284 inventions under license to 132 companies, which include 39 start-ups and 93 established companies.

UCLA and its researchers deliver practical results that can generate income and jobs for the regional economy, because the university is a source of ideas, talent and intellectual property. Sectors most likely to take advantage of technology transfer currently employ 38,678 workers in LA County and sustain an additional 115,000 indirect jobs in the region.