

The Importance of the Health Care Sector to Sheridan County

YOUR Hospital
Kansas Rural Health Options Project
K-State Research and Extension

NOTE: ENTER YOUR HOSPITAL'S NAME AS A SOURCE ON THE SLIDE.

The organization and delivery of health care services have undergone rapid evolution in recent years. For many Americans, the cost of services and access to care are important issues. This certainly is true in many rural areas where communities have struggled to maintain affordable, quality health care systems. As economic forces and technical advances continue to change health care, it is more important than ever for rural community leaders and health care providers to work together to ensure affordable, sustainable health care systems.

In an effort to generate useful information resources to community and health care leaders, our hospital has partnered with the Kansas Rural Health Options Project (KRHOP) and K-State Research and Extension, to develop this report as a component of the *Kansas Rural Health Works* program. KRHOP is a partnership of the Office of Local and Rural Health at the Kansas Department of Health and Environment, the Kansas Hospital Association, the Kansas Board of Emergency Medical Services and the Kansas Medical Society. KRHOP is dedicated to assuring quality health care delivery in rural Kansas through the promotion of collaborative systems of care. *Kansas Rural Health Works* is supported by the federal Health Resources and Services Administration, Office of Rural Health Policy.

The purpose of this report is to provide information resources that may be used to communicate to community leaders and concerned citizens the relative importance of health care to the local economy. Secondly, its purpose is to provide information that can be used by health care professionals to plan for the future health service needs of the community.

Health Care Trends Impacting Rural Communities

- Change in the structure of health care systems driven by health care costs
- Difficult for some to get health coverage
- Insurance premiums have increased
- Rural providers reimbursed less than urban counterparts
- Loss of local control

The changes occurring in the health care sector have had a substantial impact on many rural communities. Many people have found it more difficult to get health care coverage, insurance premiums have increased, and rural health care providers traditionally have been reimbursed less than their urban counterparts for doing the same work. Concurrently, changes in urban health systems have had impact on rural health care delivery with the result that some rural communities have lost their ability to make decisions about their local health care.

Research Study Objectives

- Promote a viable, sustainable health care system in our county
 - Health care and economic development
 - Identify the economic potential of health care
 - Identify trends and changes in local health care needs
 - Identify the economic impact of health care on the county economy

All of these changes make it imperative that decision makers in the county become proactive in maintaining high quality local health care services.

To help local decision makers understand this connection and its importance, this report will demonstrate the relationship between the health sector and economic development in the county. Specifically, the report will:

- (1) Discuss the role of the health sector in rural development.
- (2) Present information about the health sector's economic potential in the county.
- (3) Identify important trends and changes occurring in the health sector.
- (4) Measure the employment, income, retail sales and sales tax impact of the health sector on the county's economy.

Rapid increases in health care costs have driven these changes in health care. This graphic displays inflation-adjusted national trends in the health care sector from 1990 through 2006. In 1990, a person spent an average of \$2,074 (2006\$) on health care expenditures. During the next 16 years, health care expenditures rose to \$3,267 per person.

Health care's share of the gross domestic product (GDP) increased from 12 percent in 1990 to 16 percent in 2006. Projections indicate that health care spending will rise to 19.6 percent of GDP by 2016. Because of the increases in the demand for and cost of health care, the major purchasers of the health care services – employers and government (through Medicare, Medicaid and other programs) – must search for ways to slow the rapid growth in health care expenditures.

Health Care in the Community

- Many people don't realize the importance of health care to the local economy
- Rural communities should learn about their health care needs and take stock of their health care system
- Rural communities must act to avoid loss of health care jobs and local services

Typically, rural community residents pay little attention to their local health care system until it is needed. Consequently, many rural people have little idea of the overall importance of the health care sector to their community's economy, such as the number of jobs it currently provides and the potential to provide more jobs. To ensure that health care services remain available locally, rural communities need to understand these economic relationships. First, rural communities need to learn about their own local health needs and take stock of their local health care system. While the emphasis at the national level is on controlling costs and eliminating duplication and overcapacity in the system (de-licensing unused hospital beds, for example), the issues are very different in rural communities.

Health Care and the Rural Development Connection

Why is health care important for community economic development?

- Attract and retain business and industry
- Attract and retain retirees
- Create jobs in the local economy

Though the connections between health care services and rural development are often overlooked, at least three primary areas of commonality exist. A strong health care system can help attract and maintain business and industry growth, attract and retain retirees, and also create jobs in the local area.

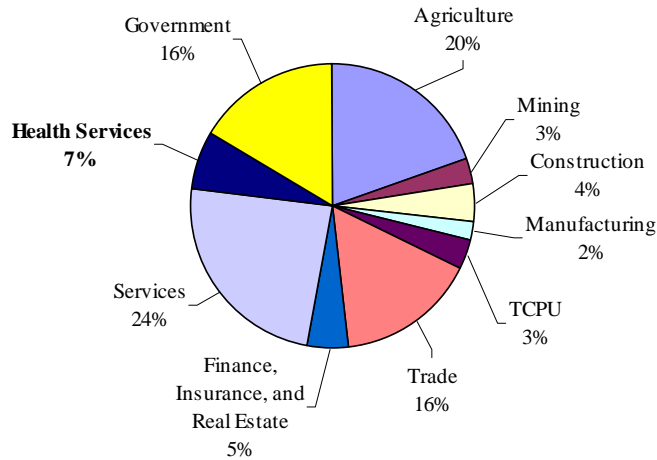
Studies have found that quality of life (QOL) factors play a dramatic role in business and industry location decisions. Health care services represent some of the most significant QOL factors for at least three reasons. First, good health and education services are imperative to industrial and business leaders as they select a community for location. Employees and management may offer strong resistance if they are asked to move into a community with substandard or inconvenient health services. Secondly, when a business or industry makes a location decision, it wants to ensure that the local labor force will be productive, and a key productivity factor is good health. Thus, investments in health care services can be expected to yield dividends in the form of increased labor productivity. The third factor that business and industry consider in location decisions is cost of health care services. A 1990 site selection survey concluded that corporations looked carefully at health care costs, and sites that provided health care services at a low cost sometimes received priority. In fact, 17 percent of the respondents indicated that their companies used health care costs as a tie-breaking factor between comparable sites.

A strong and convenient health care system is important to retirees, a special group of residents whose spending and purchasing can provide a significant source of income for the local economy. Many rural areas have environments (for example, moderate climate and outdoor activities) that enable them to attract and retain retirees. Retirees represent a substantial amount of spending, including the purchasing power associated with pensions, investments, Social Security, Medicare and other transfer payments. Additionally, middle and upper income retirees often have substantial net worth. Although the data are limited, several studies suggest health services may be a critical variable that influences the location decision of retirees. For example, one study found that four items were the best predictors of retirement locations: safety, recreational facilities, dwelling units, and health care. Another study found that nearly 60 percent of potential retirees said health services were in the "must have" category when considering a retirement community.

Job creation represents an important goal for most rural economic development programs. National employment in health care services increased by 47 percent from 1990 to 2004, and by approximately 128 percent since 1980. Given national demographic trends toward increasing longevity and the aging of the baby-boom generation, growth in health care industries should continue.

Health Services in the Local Economy

Figure 5. Employment by Sector (2007)

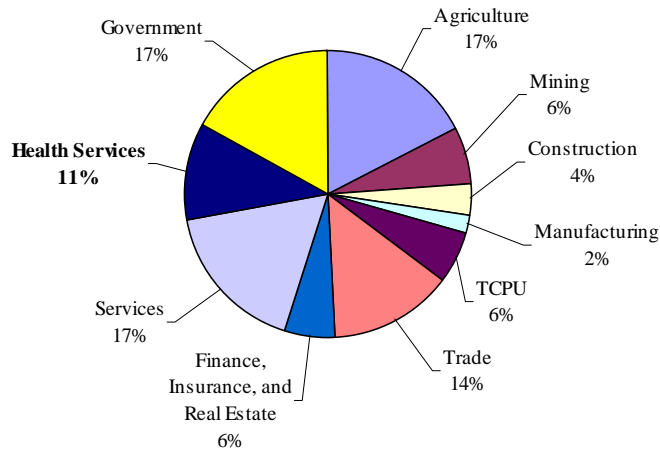


In rural areas, employment in health-related services often accounts for 10 to 15 percent of total employment. This reflects the fact that the hospital is often the second largest employer in a rural community (local government including schools typically being the largest employer). Note the percentage of total employment provided by the health services sector in the county.

[Notes to the graphic: TCPU stands for Transportation, Communication, and Public Utilities. FIRE stands for Finance, Insurance, and Real Estate. The economic sectors are aggregated into very broad and expansive categories. These are “average” jobs in each of the sectors and would include both full- and part-time employment. The health services category is broken out of the larger services category (but not double counted in the totals).]

Health Services in the Local Economy

Figure 6. Labor Income by Sector (2007)

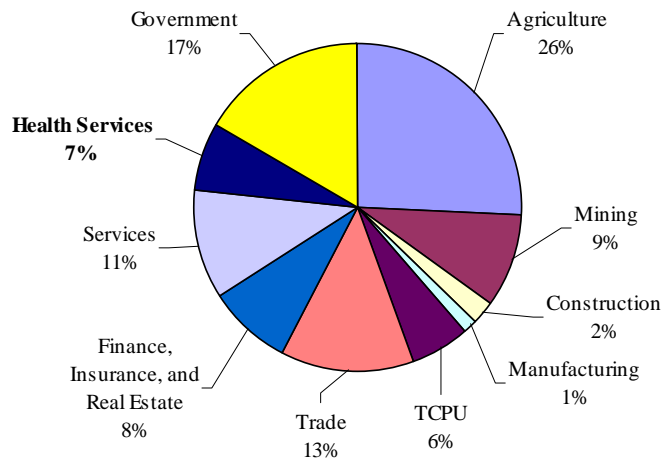


[Notes to the graphic: Many people are often surprised at the size of the numbers in the health care sectors, never having realized it typically is as large as it is.]

Health services are usually some of the largest payers of wages and salaries to employees.

Health Services in the Local Economy

Figure 7. Total Income by Sector (2007)



Total income includes employee compensation plus proprietor income plus other property income plus indirect business taxes.

Planning for Future Health Care Needs

- County demographics and projections
- Sources of local income
- Health indicators
 - Medicare, Medicaid
 - Indicators of family and financial stress
 - Indicators of maternal and children's health

Understanding the health care system in the community and the health care needs of the residents has two benefits. The first is to fully appreciate the role and contributions this essential sector plays in maintaining the economic viability of the community. The second is to anticipate the needs of tomorrow and begin positioning the community to be able to respond to those needs. Thus, we begin by looking at a variety of community characteristics and indicators that may suggest what some of the health care needs are today and may be tomorrow. In our study, we incorporated a variety of information that can be useful for planning for future health care services in the county.

The data we looked at included county demographics, population trends, and projections; various income data by source (earnings, transfer payments from the state and federal government, and other sources); and then various indicators of need, including financial stress and maternity and children's health.

Health Sector Impact

- The spending by health care businesses and the income paid to employees “ripples” throughout the county economy
- Each job created in the health sector creates additional employment in the county
- Each dollar of earned income in the health sector creates additional income in the county

The employment and income levels within the health sector have a significant impact on employment and income throughout the entire county economy, as demonstrated with the economic multiplier. The economic multiplier captures all the direct and indirect “ripple effects” of local health care businesses buying and selling to one another, and of health care workers spending their income for household goods and services. The ripple effect associated with business activity tends to spread the economic impact widely throughout the economy.

Total Health Care Impact

Health Sectors	Direct Employment	Economic Multiplier	Total Impact
Health and Personal Care Stores	10	1.10	11
Veterinary Services	5	1.17	6
Home Health Care Services	0	0.00	0
Doctors and Dentists	10	1.16	12
Other Ambulatory Health Care	5	1.11	6
Hospitals	116	1.17	136
Nursing and Residential Care Facilities	0	0.00	0
Total	146		170

Methods can be used to estimate the size of the ripple effect based on the structure of the local economy. As an example, this table shows that the hospital sector employs 116 people and has an employment multiplier of 1.17. This means that for each job created in the hospital sector, another 0.17 jobs are created in other businesses and industries in the county's economy. The direct impact of the 116 hospital employees results in an indirect impact of 20 jobs ($116 \times 0.17 = 20$) throughout all businesses and industries in the market area. Thus, the hospital sector employment had a total impact on area employment of 136 jobs ($116 \times 1.17 = 136$).

The total employment impact of the health services sector results in an estimated 170 jobs in the local economy.

Health Care Impact

Health Sectors	Direct Income	Economic Multiplier	Total Impact
Health and Personal Care Stores	\$193	1.06	\$204
Veterinary Services	\$40	1.10	\$44
Home Health Care Services	\$0	0.00	\$0
Doctors and Dentists	\$483	1.22	\$589
Other Ambulatory Health Care	\$256	1.22	\$313
Hospitals	\$6,024	1.19	\$7,166
Nursing/Residential Care Facilities	\$0	0.00	\$0
Total	\$6,996		\$8,316

Similarly, multiplier analysis can estimate the total impact of the estimated \$5,368,000 direct income for hospital employees. The hospital sector had an income multiplier of 1.19, which indicates that for every one dollar of income generated in the hospital sector, another \$0.19 is generated in other businesses and industries in the county's economy. Thus, the hospital sector had an estimated total impact on income throughout all businesses and industries of \$7,166,000 ($\$6,024,000 \times 1.19 = \$7,166,000$).

The total income impact of health services results in an estimated \$8,316,000 for the economy.

* In this example, the math is a little different than the estimate provided due to the rounding of the multiplier.

Health Care Impact

Health Sectors	Total Impact	Retail Sales
Health and Personal Care Stores	\$204	\$75
Veterinary Services	\$44	\$16
Home Health Care Services	\$0	\$0
Doctors and Dentists	\$589	\$215
Other Ambulatory Health Care	\$313	\$114
Hospitals	\$7,166	\$2,613
Nursing/Residential Care Facilities	\$0	\$0
Total	\$8,316	\$3,032

The last column in Table 8 shows the retail sales that the health sector helps to generate. To estimate this, this study incorporates a retail sales capture ratio (retail sales to total personal income). Sheridan County had retail sales of \$28,576,181 and \$78,382,000 in total personal income. Thus, the estimated retail sales capture ratio is 36.5 percent. Using this as the retail sales capture ratio for the county, this says that people spent 36.5 percent of their income on retail goods and services within the market. By taking all the household income associated with health sector activities and multiplying by the retail sales capture ratio, we can estimate the impacts of the health sector on area retail sales. Thus, the total retail sales generated by the retail sector equals \$3,032,000 ($\$8,316,000 \times 36.5\% = \$3,032,000$).^{*} This is a conservative estimate, as this method does not consider the impact of any local purchases made by the health services businesses.

^{*} In this example, the math is a little different than the estimate provided due to the rounding of the multiplier.

Summary and Conclusions

- Trends and indicators show health care's economic importance
- Health services among the fastest growing sectors – demographic trends suggest growth will continue
- Attracting/retaining businesses & retirees depends on adequate health care services
- Sustainable health care system essential for local health and economic opportunity

Our study documented the relative importance of the health care sector to the county economy and included several indicators and trends relating to health care needs in the county. While the estimates of economic impact are themselves substantial, they are only a partial accounting of the benefits to the county. Health care industries in rural counties help to preserve the population base, invigorating the communities and school systems. Similarly, many hospitals and nursing care facilities have active community outreach programs that enhance community services and the quality of life for community residents.

A vigorous and sustainable health care system is essential not only for the health and welfare of community residents, but to enhance economic opportunity as well. Health-related sectors are among the fastest growing in economy. Given demographic trends, this growth is likely to continue. The attraction and retention of new business and retirees also depends on access to adequate health care services.

Summary and Conclusions

- Economics of health care rapidly changing
- Maintaining a sustainable local health care system is a community-wide challenge
- Strategic health care planning must be ongoing and inclusive

While industry trends related to health care are positive overall, many rural communities have significant challenges. The economics of health care are rapidly changing. As health care costs escalate and government funding becomes tighter, rural markets may become less attractive to many providers. This will lead to the continued restructuring of rural health care services in many areas.

If a community wants to maintain the benefits associated with accessible and affordable health care, it must actively work to meet these challenges. The challenges cannot be met by those directly responsible for health care administration alone. They require a community-wide response involving government, business and civic leaders, and they frequently incorporate outside assistance from professional resources providers. In meeting current and future challenges, health care and community leaders can engage in an ongoing process of strategic health planning. This is continuous effort to maintain and enhance the community's health care situation. The strategic health planning process helps local communities identify their health care needs; examine the social, economic, and political realities affecting the local delivery of health care; determine what is wanted and what realistically can be achieved to meet their identified health care needs; and develop and mobilize an action plan based on their analysis and planning.

For the strategic health planning process to be most effective, it must be based in the community and driven by the community. Local residents and their leaders must participate; a current knowledge of the health care industry is not necessary. This process is about local people solving local problems. The local hospital and health care providers should have input into the decision-making and should support and trust the outcomes, but, the community must provide the energy and commitment.